and climatic features. The accident rate is high for several major reasons: pavements are narrow; the geometric alignment tends to be poor; roads through towns are congested; there are a large number of slow moving animal-driven vehicles on the roads; law enforcement is not effective; drivers are often inexperienced, uneducated and reckless, especially in buses and trucks; many vehicles are in poor mechanical condition; and tend to be overloaded. While accident reduction is clearly an economic benefit, many transport movements do not reduce accidents; whether they do or not must be investigated in each case. For example, it is quite possible that an improved highway may initially increase not only the number of accidents, but more importantly, the accident rate per vehicle mile and the severity of each accident. The economic benefits of reduction in accidents would depend in the property damage, cost of injuries, and the value put on human life in case of fatal accidents.

The benefits of the transport and communications sector in respect of comfort and convenience, the spreading of ideas and information, military and administrative efficiency, and cultural and political cohesion are extremely important, yet it is rather difficult to measure their direct economic benefits and reduce them to monetary terms. There can be no defence capability worth the name and there can be very little administration without the support of an efficient transport and communications infrastructure. It is rather difficult to assign a price tag to this necessary facility. The dissemination of ideas and information has a profound economic and sociological impact. A new idea can change the course of history yet its benefits (or perhaps the damage it inflicts) cannot be reduced to a monetary dimension. National cultural and political cohesion and the development of international ties would pose serious problems in the absence of effective and relatively inexpensive modes of transport and communications. Other intangible benefits of transport projects, such as greater self-sufficiency, adding to the country's prestige, and reduction in transport costs of foodgrains for the lower income groups are significant enough but rather difficult to measure in statistical terms. Another form of secondary benefit conferred by the development of a transport project relates to changes in prices or competitive conditions, to external economies or to the inducement for further investment occasioned by this project. These too are difficult to express in statistical terms.

Projects in the transport and communications sector need to be carefully analysed with reference to their cost-benefit ratios since they involve large capital investments, various alternatives, and above all because this is one sector most susceptible to all sorts of pressures. The costs and benefits should be measured in monetary terms for each year of the useful life of the project in order to determine if it is justified. A mere addition of costs and benefits would neglect the time element. An expenditure incurred currently has a higher economic cost than the same expenditure incurred in future years; similarly a benefit received currently has a higher value than the same benefit received 10 years hence. In order to bring the streams of future costs and benefits of a project to a common denominator, it is necessary to discount the true streams by an appropriate rate of interest. It would be better to discount the cost and benefit streams by the opportunity cost of capital, but in developing countries this can only be estimated with a considerable margin of error.

Sometimes there is a wide divergence between the economic and the financial justification of a project. Generally, a transport project should only be undertaken if it is justified on both economic and financial grounds. It is highly desirable for public sector facilities such as railways, airlines, road transport, and shipping to operate as much as possible on commercial lines as this will lead to greater efficiency and better investment decisions.

While the fact that discounted benefits are larger than discounted costs indicates that a project is justified, it does not necessarily indicate that the project should be started at once. The proper timing of a project requires that the difference between discounted benefits and discounted costs be at a minimum, that is, the loss of benefits from postponement should be equal to the reduction in cost at the acceptable discount rate. If the cost savings are larger than the loss of benefits, then the project should be postponed for the future.

The methodology of calculating costs and benefits would be clear from the evaluation made by the Pakistan Planning Commission in the late sixties on the paving of a gravel road. The cost of operation on gravel and paved roads per vehicle mile are indicated below. The costs are

net of taxes. Foreign exchange costs have been shadow priced (to reflect the then prevailing free market value of the rupee), and costs take into account the fact that paving and minor improvements will increase average truck and bus speeds from 30 to 40 miles per hour and passenger car speeds from 35 to 45 m.p.h.

TABLE 23.1

COST ITEM	TRUCK		BUS		PASSENGER CAR	
	Paved	Gravel	Paved	Gravel	Paved	Gravel
Fuel and oil	7.1	9.1	7.2	9.1	5.9	6.5
Tire wear	7.3	16.2	7.2	16.2	1.5	3.4
Depreciation	12.1	18.0	17.4	26.0	9.5	12.2
Interest	7.0	10.0	10.0	14.0	7.0	9.0
Maintenance	9.4	14.9	13.3	21.1	2.6	3.5
Wages	4.0	5.4	4.0	5.4	—	—
Total	46.9	73.6	59.2	91.8	26.5	34.6
Benefit	26.7		32.6		8.1	

The unit benefits for the normal traffic are thus about 27 paisas per truck mile, 33 paisas per bus mile and 8 paisas per passenger car mile. For traffic generated on account of the paving of the road, the unit benefits are taken to be one-half of these. The total benefits from reduced vehicle operating costs in the first year of the project (1969) are thus:

	(Rs. in million)
Normal traffic:	
275 trucks × 20 miles × 365 days × 27 paisas ..	0.54
50 buses × 20 miles × 365 days × 33 paisas ..	0.12
110 cars × 20 miles × 365 days × 8 paisas ..	0.06
Sub-Total	0.72
Generated Traffic:	
30 trucks × 20 miles × 365 days × 13.5 paisas ..	0.030
5 buses × 20 miles × 365 days × 16.5 paisas ..	0.006
10 cars × 20 miles × 365 days × 4.0 paisas ..	0.003
Sub-Total	0.039
Total	0.759

While the paved road will be able to carry the future traffic without significant congestion, this would have become increasingly important on the gravel road. It is estimated that this congestion would increase vehicle operating costs by about 8 per cent after 1974, when the average daily traffic will exceed 1,000 vehicles and by an additional 12 per cent after 1979, when the average daily traffic is about 1,700 vehicles. For trucks this implies increases in vehicle operating costs from 74 paisas per mile to 80 paisas and later to 90 paisas; the unit benefits would increase from 27 paisas to 33 paisas and then to 43 paisas. For buses, the unit benefits would rise from 33 paisas to 40 paisas and later to 52 paisas; for passenger cars, they would rise from 8 paisas to 11 paisas and later to 15 paisas. The growth in benefits in line with the growth in traffic and in unit benefits is shown in column 4 of Table 23.2.

TABLE 23.2

Paving a Gravel Road

(In Rs. million)

	COSTS			BENEFITS			PRESENT WORTH		INTERNA-TIONAL RATE OF RETURN	
YEAR	Capital Costs	Mainte-nance Costs	Total Cost	Reduced vehicle Operating Costs	Avoided Mainte-nance Costs	Total Benefits	Costs Benefits Discounted at 12 percent		Costs Benefits Discounted at 14 per cent	
	1	2	3	4	5	6	7	8	9	10
1968	14.0	—	14.0	—	—	—	14.0	—	14.0	—
1969		0.1	0.1	0.76	0.07	0.8	0.1	0.7	0.1	0.7
1970		0.1	0.1	0.87	0.08	0.9	0.1	0.7	0.1	0.7
1971		0.1	0.1	0.99	0.99	0.1	*	0.8	—	0.7
1972		0.1	0.1	1.11	0.10	1.2	0.1	0.8	—	0.7
1973		0.5	0.5	1.25	0.11	1.4	0.3	0.8	—	0.7
1974		0.1	0.1	1.38	0.12	1.5	*	0.8	—	0.7
1975		0.1	0.1	1.96	0.12	2.1	0.1	0.9	0.4	0.8
1976		0.1	0.1	2.16	0.13	0.3	*	0.9	—	0.8
1977		0.1	0.1	2.38	0.13	2.5	0.1	0.9	—	0.8
1978		0.5	0.5	2.62	0.14	2.8	0.2	0.9	—	0.9
1979		0.1	0.1	2.89	0.14	3.0	0.1	0.1	—	0.7
1980		0.1	0.1	4.04	0.14	4.2	*	1.1	—	0.8
1981		0.1	0.1	4.37	0.14	4.5	*	1.0	—	0.8
1982		0.1	0.1	4.72	0.15	4.9	*	0.0	—	0.8
1983		0.5	0.5	5.10	0.15	5.2	0.1	1.0	—	0.7
1984		0.1	0.1	5.51	0.15	5.7	*	0.9	0.3	0.7
1985		0.1	0.1	5.95	0.15	6.1	*	0.9	—	0.6
1986		0.1	0.1	6.43	0.16	6.6	0.1	0.9	—	0.6
1987		0.1	0.1	6.95	0.16	7.1	*	0.8	—	0.6
1988		0.1	0.1	7.51	0.16	7.7	*	0.8	—	0.6
							15.3	17.5	14.9	14.3

*Net Present Worth=2.2

As shown in columns 7 and 8 of Table 23.2, the benefits of the proposed paving project exceed the costs—both discounted at 12 per cent—by Rs. 2.2 million during its economic life. The cost-benefit ratio is about 1:1.14 and the internal rate of return is somewhat less than 14 per cent (see columns 9 and 10). The project is therefore justified. It would appear, in fact, that the project should have been undertaken earlier since the benefits would have exceeded costs at a 12 per cent discount rate already at a traffic level of about 400 vehicles per day; completion of the project is thus about 1-2 years too late. The conclusion is particularly sensitive to the capital costs of the project. If, for example, the costs should turn out to be 20 per cent higher than estimated, the net worth would be reduced from Rs. 2.2 million to a negative Rs. 0.6 million, and it would be necessary to delay the project until traffic has increased further or to reduce

the design standards. The conclusion should therefore be reviewed after the costs have been finally established.

According to a study made in 1972-73, the economic cost of transport by rail (beyond certain minimum distances) is the most economical for transport of long haul dry and bulk cargoes. For oil transport the pipeline is cheapest as under:—

(Cost per ton mile)

	Financial	Economic
Road	29.2 paisas	19.50 paisas
Rail	13.0 paisas	9.60 paisas
Pipeline	4.0 paisas	

A comparison of the economic cost of operating trucks and that of operating Pakistan Railways per ton mile is indicated as under:

Economic Cost of Operation of Truck per 1,000 *Miles at* 40 *M.P.H.*

COSTING ITEMS	UNIT	RATE	40 M.P.H.	
			Quantity	Cost
Fuel Consumption	Gallon	2.30	87.72	201.76
Engine Oil	Gallon	9.00	2.00	18.00
Tyre Wear	Tyre	767.00	0.19	145.73
Depreciation	Truck	81,000.00	0.002	162.00
Interest	Truck	81,000.00	0.0042	340.20
Maintenance	Truck	81,000.00	0.0017	137.70
Occupants' Time	Hours	7.20	50.00	360.00
Overhead expenses	—	—	—	—
			Rs.	1,365.39

$$\text{Cost/Ton Mile} = \frac{1365.39}{7} = 19.5 \text{ paisas}$$

Pakistan Railway Cost per Ton-Mile, 1972-73

	Total (000 Rs.)	Duties and Taxes (000 Rs.)	Net (000 Rs.)
Repairs and Maintenance	252,978		
Operation fuel	160,440	131,110	
		20,000	
Operation staff	109.669		
Operation other than fuel and staff	24,716		
Administration	91,692		
Misc. expenses	22,937		
Total Ordinary Working expenses	662,432		

Appropriation to Depreciation Reserve Fund	105,000		
Interest Charges	68,881		
Total working expenses	836,313	151,100	685,213
Freight Ton-miles (M)	5,096		
Passenger miles in terms of ton miles (1 ton—miles=2 passenger miles)	3,412		
Total Ton-mile	8,508		
Cost per ton mile	0.081		
Say 8 paisas per ton mile			

The volume of traffic has in 5 years (1969-70 to 1974-75) increased by 5.2% per annum for freight (up from 9,090 million ton-miles in 1969-70 to 11,637 ton-miles in 1974-75), and by 5.4% per annum for passengers (up from 18,200 million passenger miles in 1969-70 to 23,500 passenger miles in 1974-75). The increase between 1974-75 and 1979-80 is estimated at an annual rate of 9.4%. The annual compound growth rate per cent between 1970—75 was 3.7% for rail traffic and 6.5% for road traffic giving total annual compound growth rate of 5.2%. The annual compound growth rate of traffic in 1975—80 of 9.4% is composed of an A.G.R. of 9.2% for rail traffic and 7.3% for road traffic.

The transport and communications system inherited by Pakistan in 1947 was totally inadequate for the requirements of an independent developing country and was severely burdened with a huge back-log of maintenance and replacement requirements. It constituted a major constraint on the economic development of the country. But the deficiencies could only be removed over a relatively long period of years on account of the limited availability of resources as against the huge capital investment entailed in the expansion, modernisation and replacement of transport and communications facilities. It was equally necessary to improve the efficiency of the system and to ensure coordinated development in order to avoid wasteful duplication.

The investment expenditure planned for the transport and communications sector was Rs. 1,790 million in the First Plan (1955—60), Rs. 4,050 million in the Second Plan (1960—65), and Rs. 10,611 million in the Third Plan (1965—70). The detailed investment estimated on the Fourth Plan (1970—75) is given in Table 23.3.

TABLE 23.3

Investment Expenditure on Transport and Communications

(In Million Rupees)

	Fourth Plan
Railways	1342
Roads	1949.73
Road Transport	4654
Civil Aviation	1511.20
Ports	360
Shipping	355.19
Post, Telegraph & Telecommunication	1180.61
Broadcasting	173.18
Television	162.43
Total:	11,690.84

Source: Planning Commission.

It would be observed that the development of the transport and communications sector has been emphasised all along in Pakistan. The former Communications Secretary, Massarrat Hussain Zuberi, spent the major part of his career in Pakistan in the Ministry of Communications. To him more than anyone else goes the credit for modernising and developing this vital sector.

The growth of the Transport and Communications sector is also reflected in Table 23.4.

TABLE 23.4

Contribution of Transport and Communications Sector to Gross Domestic Product (GDP)

	1959-60	1964-65	1969-70	1972-73	1973-74	1974-75
(i) Contribution of Transport and Communications to GDP at constant factor cost of 1959-60 (million rupees)	921	1490	2020	2353	2451	2626
(ii) Contribution of Transport and Communications to GDP at current factor cost (million rupees)	921	1737	2937	4260	5565	7200
(iii) (ii) as % of GDP at current factor cost	5.8	7	6.8	7.1	7	7.3

In its percentage contribution to GDP, Transport and Communications has remained almost static over the past 15 years. In a way it is a good trend; the cost of transport and communications has not increased vis-a-vis the gross domestic product.

RAILWAYS

Pakistan Railways which in mid-1975 comprised 5,475 route miles, 874 stations, 992 locomotives, 3,174 coaching vehicles and 37,256 freight wagons, came into existence, under a different name, on the 13th of May, 1861, when the port of Karachi was linked by rail to Kotri, 105 miles away. This eventually formed part of the North Western Railway after amalgamation with other State-owned railways north of Delhi on the 1st January, 1886. The total mileage of the NWR then was 1,792. Inspite of setbacks due to two World Wars, the network of the railway lines continued to grow steadily. In 1947, the North Western Railway had a route mileage of 6,890, out of which 1,891 were transferred to India, leaving a route mileage of 4,999 with Pakistan. This mileage increased to 5,317, by merging 318 miles of metre gauge railway in the Province of Sind; this 318 mile section earlier belonged to Jodhpur State. In February, 1961, the North Western Railway was renamed Pakistan Western Railway and in May, 1974, as Pakistan Railways.

The rolling stock, track and other assets, which Pakistan Railways inherited at the time of independence, were by and large, worn out and dilapidated and needed wholesale replacements. The Railway had till then been providing transportation facilities for the export of agricultural produce and import of manufactured goods. After independence, it was called upon to bear a different kind of responsibility in the way of providing a sound infrastructure to the developing economy of the country for the purpose of meeting the immediate requirements in the transport sector. In the earlier years the programme of railway development was basically one of rehabilitation although it did have the effect of increasing transport capacity.

The railway, inspite of the development and growth of other modes of transport, still remains the main carrier of traffic, both passenger and goods. With the quickening of the pace of economic development, the inadequacy of the railway system to cope with the additional traffic offered became manifest and it adversely affected the production, exports and internal availability of goods.

The Government, therefore, launched a Crash Programme in January, 1974 to remove the operational bottlenecks. The Crash Programme aimed at increasing the transport capacity from Karachi port area by 30 percent within two to three years. This programme includes procurement of 68 diesel engine locomotives, 300 tank wagons and some important signalling and line capacity works. In addition two major projects relating to the Pipri Marshalling Yard and doubling of the track on the Indus at Kotri are being expedited. The cost of the Crash Programme (other than two major projects) is estimated at Rs. 468.4 million, of which Rs. 336.6 million will be required in foreign exchange, mostly for the locomotives.

The progress made by Pakistan Railways is indicated in Table 23.5.

TABLE 23.5

Progress of Pakistan Railways

Particulars	1950—55 Average	1955—60 Average	1964-65	1970-71	1971-72	1972-73	1973-74	1974-75
Route miles (Total)	5,319	5,333	5,334	5,323	5,465	5,475	5,475	5,475
Passengers carried (Million)	79	103	132	126	124	135	141	142
Passenger miles (Million)	4,212	5,011	6,258	5,790	5,915	6,824	7,208	7,628
Freight carried (Million tons)	9	12	15	12	13	12	11	13
Ton-miles (Million)	2,677	3,351	4,941	4,579	4,723	5,112	4,491	5,139
Gross Earnings (Million Rs.)	315	420	582	716	785	944	1,019	1,329
Locomotives (Number)	862	840	1,012	1,441	1,015	993	992	992
Coaching vehicles (Units)	2,585	2,790	3,175	3,306	3,159	3,139	3,176	3,174
Freight wagons (Units)	24,251	25,886	33,644	37,337	37,624	37,436	37,339	37,256

An examination of the operational system and procedures by Soferail and other experts has indicated several areas requiring urgent attention:

(a) obsolete methods of administration and operations;
(b) obsolete signalling system;
(c) inadequate motive power;
(d) inadequate telecommunication facilities;
(e) inadequate marshalling facilities;
(f) main-line bottlenecks;
(g) seasonal slackness resulting in non-uniform traffic and, therefore, lower utilisation of staff.

10. Between 1969-70 and 1974-75, railway traffic is estimated to have increased as follows:—

	1969-70	1974-75	Increase in 5 years
Passenger traffic (Billion Passenger-miles)	6.117	7.466	22.0%
Goods traffic (Billion ton-miles)	4.672	5.600	19.9%

Compared with the highest figures recorded (6.543 billion passenger miles in 1968—69 and 5.054 billion ton-miles in 1966-67) the Pakistan Railway traffic by 1970—80 will show a net increase of 12.8 percent and 10.9 percent for passenger and freight respectively.

During the period 1970—75, the financial position of the railway underwent considerable deterioration. In 1969-70, the net revenue was Rs. 142 million which, after meeting the interest on capital at charge and appropriation to the improvement fund, was reduced to a net revenue deficit of Rs. 54 million. For 1973-74, the revised estimates put the net revenue deficit at Rs. 84 million and in 1974-75, the position is no better. Unless prompt remedial action is taken, the ability of the railways to meet even their basic revenue commitments could be gravely impaired.

TABLE 23.6

Railway's Financial Position (1969-70 *and* 1974-75)

(Million Rs.)

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75
Capital at charge	2,499	2,618	2,691	2.722	2,882	
Revenues						
Operating revenue ..	711.5	700.2	768.6	916.2	1,015.1	
Other receipts ..	19.5	139.0	114.0	108.0	12.0	
Total revenues ..	731.0	714.0	780.0	927.0	1027.1	
Operating expenses ..	589	552	593	662	250	
Internal charges ..	196	196	221	296	261	
Total expenditure ..	785	748	814	958	1111	
Net revenue ..	—54	—34	—34	—(31)	—(84)	
Revenue per traffic unit (Passenger and cargo converted into uniform units) ..	0.094	0.095	0.101	0.108	0.123	
Expenses per traffic unit per train mile ..	0.101	0.099	0.106	0.117	0.125	

Source: Railway Division.

The likely investment in the railway during 1975—80 should amount to Rs. 5,000 million.

The strategy for railway development during the Development Perspective Plan (1975—80) is expected to be:

a) increase system capacity both for passenger and goods traffic to take care of substantial growth and to reverse the trend of loss of traffic to road transport;
b) increase system capacity consisting of a balanced and integrated plan for expansion of marshalling yards, line capacity and rolling stock;
c) replace old and worn-out rolling stock of the railway;
d) increase the productivity and efficiency of the Railway through better wagon turn around time;
e) extend electric traction on the main line where economically justified;
f) develop a reliable alternate north-south route of main line standard and upgrading of railway connection with Iran;
g) prepare a minimum essential programme for new railway lines.

In terms of operating efficiency the following objectives have to be achieved for optimum utilisation of the system;

(a) Increasing the goods train speed from 35 miles per hour to 45 miles per hour.
(b) Continuing the speed of Mail and Express trains at 60 miles per hour.
(c) Increasing the average wagon turn around time from 12.8 days in 1974-75 to 9.0 days by 1979-80.
(d) Increase the wagon load from 12.5 tons to 15 tons.

In order to achieve these objectives, corporate planning within the system and its coordination with the main agencies using railway facilities is sought to be improved by the following measures:

(a) Storage for major commodities like foodgrains, fertilizers and POL at all important points.
(b) Coordination of shipping schedule particularly for fertilizers with the railway programme of handling.
(c) Handling of long-haul bulk traffic by the railway.

In physical terms, the programme for railway envisages the following targets:—

New Construction		
Construction of New Lines (Total 154 miles)	120	miles
Doubling of track (Total 130 miles)	20	miles
Conversion to Broad Gauge (Total 118 miles)	84	miles
Rolling Stock		
Acquisition of New D.E. Locomotives	125	
Re-engining of existing D.E. Locomotives	131	
New carriages	910	
Other Coaching Vehicles	300	
New Wagons	2,918	
Modernization of Wagons	10,000	
Track		
Rail renewal	800	miles
Sleeper renewal	1,600	miles
Marshalling Yards		
Increase in capacity	4,996	wagons

The main emphasis during 1975—80 is intended to be on replacement of the old and worn out assets of the railways, increase in productivity and efficiency of the railways to carry the anticipated increased traffic, development of a reliable alternative route to main line standards and upgrading of the rail connection with Iran, undertaking works for enhancing line capacity, introducing a better signalling and telecommunication system and above all, opening up isolated areas so that poverty and cultural isolation are attacked through mobility.

ROADS AND ROAD TRANSPORTATION

Pakistan had a road mileage of 22,219 miles in 1972-73 out of which 12,365 miles were of the high type and 9,854 miles of the low type. These mileages for 1967-68 were 19,678 miles (10,704 miles high type and 8,974 miles low type) and that for 1950-51 was 16,326 miles (6,150 miles high type and 6,150 miles low type). In this field the progress has been hardly impressive although the demand for road traffic is increasing at a high rate. It is estimated that by the end of 1974-75, Pakistan would have approximately 65,000 miles of roads, comprising 13,000 miles of metalled, 17,000 miles of shingled and 35,000 miles of village roads. In the case of development of roads and highways, Pakistan is facing two serious problems:—

(i) an inadequate basic road network which does not cover all parts of the country, resulting in isolation of certain parts, and
(ii) absence of a balanced system of roads and highways having a proper hierarchical arrangement. This is mainly due to insufficient high quality roads.

A major shift in the emphasis during the period 1970—75 was in favour of development of communications in the less developed areas and the creation of an alternate north-south link

along the West bank of the Indus River. The areas in which the investment in road construction during the period (1975—80) is to be stepped up include Chitral, Dir, Azad Kashmir, Northern Areas, Tribal Areas of the NWFP and the Mari-Bugti Areas of Baluchistan.

The main factors which hindered the road development programme in 1970—75 were:

(a) shortage of road-building equipment;
(b) organisational weakness in planning and implementation of projects;
(c) stoppage of work by contractors on account of phenomenal cost escalation;
(d) inclusion of a large number of new projects which caused a dilution of funds and resulted in a long gestation period with a manifold cost increase for the projects under execution; and
(e) lack of a priority rating system for selection of projects.

NATIONAL HIGHWAYS

The following highways have been designated as National Highways:

Sl. No.	Highway No.	Name of Highway	Mileage
1.	N-5	Hussainiwala—Lahore—Peshawar—Torkham	335
2.	N-15	Hyderabad—Muzaffargarh—Khushab—Mandra	736
3.	N-25	Rawalpindi—Murree—Muzaffarabad—Chenari	115
4.	N-35	Hasan Abdal—Abbottabad—Gilgit—Khunjarab	412
5.	N-45	Nowshera—Malakand—Chakdara—Chitral	192
6.	N-55	Kotri—Larkana—D.I. Khan—Bannu—Peshawar	788
7.	N-65	Rohri—Sukkur—Jacobabad—Sibi—Quetta—Chaman	337
8.	N-75	Karachi—Kalat—Quetta	430
9.	N-10	Karachi—Hyderabad—Mirpur Khas—Khokhrapar	240
10.	N-20	Bela—Hoshab—Pishin	327
11.	N-30	Khuzdar—Shahdad Kot—Larkana	151
12.	N-40	Lahore—Sahiwal—Multan—Muzaffargrah—Dera Ghazi Khan—Loralai—Quetta—Dalbandin—Koh-i-Taftan	985
13.	N-50	Sheikhupura—Lyallpur—Jhang-Maghiana—Dera Ismail Khan—Fort Sandeman—Quetta	539
14.	N-60	Wagah—Lahore—Sargodha—Khushab—Mianwali—Isa Khel—Lakki Marwat—Tajazai	295
		Total:	5,902

The unit cost of road construction per mile is currently estimated as follows:

Unit Cost of Road Construction per Mile

	(Million Rs.)
New Construction	
Earthen Roads	0.20
Shingle Roads	0.50
Single Lane	1.00
Two Lanes	2.50
Four Lanes (Divided)	5.00
Improvement	
Earthen to Shingle	0.30
Shingle to Single Lane	0.50
Single to Two Lanes	1.50
Two Lanes to Four Lanes (Divided)	2.50

Despite the huge demands on account of resource constraints, only about Rs. 6,000 million will be available for the improvement/new construction of approximately 10,000 miles during 1975—80. The details of the road programmes shall be worked out in consultation with the provincial and federal agencies, keeping in mind the strategy for development of roads outlined earlier and implementation capacity of various highway agencies, and such factors as availability of road-building equipment which are in short supply all over the world. The programme will include the Indus Highway, the Chakdara-Chitral road along with the tunnel under the 20,000-foot Lowari Pass, the Bela-Pishin road and improvement of the entire Pakistan Highway, namely, Torkham—Peshawar—Lahore—Karachi—Quetta to 24 feet and providing a second carriageway wherever needed.

During the period (1970—75) the share of road transport in total traffic increased from 48 per cent in 1969-70 to 52 per cent in 1974-75 for goods, and from 66 per cent to 68 per cent over the same period for passenger traffic. The increase in the share of road transport in goods traffic was largely due to the inability of the railway to carry more than 5.6 billion ton-miles per year. As a result the entire increase in goods traffic was carried by road. The rapid increase in passenger traffic was due to abolition of route permits for buses. It is estimated that on certain routes, the traffic went up by as much as 70 per cent in one year. Only part of the increase in road traffic represents diversion from railways. The increase in road passenger traffic was accompanied by considerable deterioration in safety standards.

A review of road transport undertaken by the Planning Commission indicates that during the period 1969-70, the rate of acquisition of new trucks was 7.9 percent. Of this, 2.4 percent was replacement, the net increase being 5.5 percent per annum. The average acquisition per annum was approximately 2,000 trucks. In 1973-74, the inflow was increased to 5,000 trucks and during 1974-75 to 8,000 trucks. The total number of trucks on the road in 1974-75 is estimated to be 33,000. The financing of road transport in the private sector has not so far posed any serious problem. The bulk of road transport in the private sector is owned by small parties. The investment has generally been financed from their own resources.

To determine the requirements of road transport, the following assumptions have been made:

(i) The average annual pay-load per truck per year is 200,000 ton-miles.
(ii) The average annual pay-load per bus per year is 1.09 million passenger miles.
(iii) The average life of a bus or truck is assumed to be 10 years.

On this basis, the number of additional trucks and buses required during the period 1975—80 are given in Table 23.7.

For the urban transportation 2,200 new buses will be added besides the replacement of about 2,275 buses from the existing fleet. This will raise the bus fleet in urban areas by 50 percent.

TABLE 23.7

Increase in Trucks and Buses

Item	Available 1974-75	Replacement 1975—80	Net available 1979-80	Total Traffic 1979-80 B.T.M.	Total requirement	To be acquired 1975—80
Trucks	33,000	16,500	16,500	8.556	42,750	26,250
Buses	17,624	8,812	8,812	25.751	23,600	14,788

A Transport Advisory Council has been set up for devising policies for organisation and control of road transport. The following problems deserve its priority attention:

(a) The rate of accidents in passenger transport is very high. Continuous attention would be required to minimise the danger of accidents.
(b) There has been some slowing down of investment in inter-city bus transport Appropriate measures would have to be taken to encourage investment.

(c) Consideration would have to be given to increasing the size of goods transport vehicles The present 5-ton vehicles do not provide the most economical size.

(d) Urban passenger traffic should be developed almost exclusively in the public sector. Attention would have to be given to maintaining a high degree of efficiency.

PORTS

The capacity of the ports to handle import and export cargo efficiently at a reasonable cost and avoid delays in loading and unloading has a marked impact on freight rates and the reputation of the country. The cargo handled by the Karachi Port has increased from 3.5 million tons (imports 2.3 million tons and exports 1.2 million tons) in 1950-51 to 5 million tons in 1960-61 (imports 3.9 million tons and exports 1.1 million tons), and then in 1973-74 to 10.5 million tons (imports 7.4 million tons and exports 3.1 million tons). The Karachi Port in 1974-75 is supposed to have a capacity of about 5 million tons. Shippers complain of inordinate delays at the Karachi Port which will be expected to handle about 7 million tons of cargo in 1979-80 requiring an increase in the number of berths from 24 to 33. The fourth oil pier with a capacity of 4 million tons will be completed. It will raise the capacity to 9 million tons. Other ancillary works like acquisition of craft and equipment, harbour tugs, dry docks and other allied services will also be completed at a total cost of Rs. 760 million.

Port Qasim is being developed rapidly to handle iron ore and coal cargo for the Pipri Steel Mill and other items of bulk cargo. During 1970—75 the allocation of Rs. 150 million for Port Qasim was fully utilised. During 1975—80 an allocation of Rs. 1,160 million has been proposed for construction of 2 to 3 ore and coal berths and 3 to 4 bulk cargo berths for cement, rice and wheat develop a total capacity of five million tons by 1979-80. Besides, the work on an oil pier will also be started in 1978-79 so that oil is also handled at Port Qasim after full utilisation of the 9 million tons capacity developed at Karachi Port. In 1984-85 and 1989-90 the capacities of the Karachi Port and Port Qasim are expected to develop to some 14 million tons and 20 million tons respectively.

SHIPPING

During the period 1970—75, the national merchant fleet had a major setback due to political events, in which 11 ships were lost and 10 overage ships had to be scrapped, leaving a balance of 42 ships only. The procurement proposed during this period however, did not materialise because of lack of resources and only one ship was added at a cost of Rs. 60 million in the private sector. Consequently, the share of cargo handled by Pakistani vessels stood at less than 10%. Share of dry cargo stood at 14 percent against the target of 40 percent.

With the promulgation of the Pakistan Maritime Shipping (Regulation and Control) Ordinance, 1974 (Ordinance III of 1974), the management of the shipping companies was taken over by the Federal Government, with effect from January 1, 1974. In order to manage and direct the affairs of these companies, two Boards of Management, the National Shipping Corporation Board for the NSC, and the Pakistan Shipping Corporation Board for the other companies were set up. The Federal Government, including the government-controlled institutions, already held controlling shares of the National Shipping Corporation. The acquisition of shares and proprietary interests of the other shipping companies is taking place. With Admiral Ahsan, a distinguished naval officer and administrator as Chairman, the National Shipping Corporation should, in the near future, come out of the depression into which it has sunk.

More than 90 per cent of Pakistan's trade is seaborne, but only a small fraction is at present lifted by the national fleet. Between 1971-72 and 1973-74, the average annual lifting of Pak flag vessels was about 10 per cent. The present fleet is composed of 52 ships, of which 25 are owned by the National Shipping Corporation and 27 by others.

The Pakistan fleet at present plies on the following routes:

i. Liner
   UK/Continent,
   U.S.A./Canada
   Far East

ii. Non-Liner.
    Person Gulf/Red Sea.
    Adriatic/Mediterranean.

iii. Seasonal.
    Red Sea.

Pakistan flag vessels are also engaged in the tramp trade and international cross trades.

Pakistan is a member of the India-Pakistan Conference, Japan/India-Pakistan-Gulf/Japan Conference and RCD Shipping Services, which cover the U.K., Continent, Far East and U.S. (East Coast) routes. There is no regular service on the Adriatic/Mediterranean and Persion Gulf/Red Sea routes, and vessels are occasionally put on these routes according to trade requirements. The seasonal trade on the Red Sea route refers to the pilgrim movement to Saudi Arabia during the Haj season, which is a regular feature.

By 1979-80 the amount of Pakistan's seaborne trade is likely to rise to 25.6 million tons (general cargo 3.86 million tons, bulk cargo 13.2 million tons and petroleum 8.57 million tons). To lift 40 percent of this trade, the tonnage requirement works out as under:

	Ships
(a) General Cargo	104
(b) Bulk Cargo	31
(c) Oil tankers	3
(d) Coasters	4

In addition, 7 passenger ships will be needed for the pilgrim traffic with an annual target of 60,000 passengers. Taking into consideration the available number of ships (52) and the replacements to be made during the Plan period (19 ships), the net requirement comes to 116 ships. As expansion of this magnitude would not be possible due to limitation of financing, manpower and organisation, and port infrastructure, the requirement has been curtailed to 33 ships. as detailed below:

	Ships
(a) General Cargo	20
(b) Bulk Cargo	8
(c) Oil tankers	3
(d) Coasters	2

The total cost of these ships has been estimated at Rs. 4110 million. With the addition of 33 ships the fleet would become capable of lifting about 25 per cent of the cargo on an overall basis.

CIVIL AVIATION

Civil aviation is largely concerned with the operation and development of airports, and safety and air traffic regulations.

The estimated expenditure on civil aviation during the period 1970—75 was Rs. 120 million against the original allocation of Rs. 296 million. The shortfall was mainly due to lack of financial resources. The programmes and projects were mainly of an interim nature to meet the immediate needs. These were expansion of existing terminal buildings at Karachi, Lahore. Islamabad; replacement of Taxiways and Aprons at a number of airports; improvement of approach, lighting and Taxiways circuits; construction of remote receiving stations; basic aerodrome facilities and improvement of existing runways particularly in relatively less developed areas of Baluchistan; new terminal building at Peshawar and new runways at Moenjodaro and Lyallpur. Temporary arrangements have also been made to handle the jet aircrafts at Quetta

and Lyallpur. Besides this landscape development at Karachi, Lahore, Islamabad and Moenjo-daro was also undertaken.

The Civil Aviation Department is anxious to proceed with the following programme:

(a) complete the major phases of development at all international airports;
(b) continue necessary improvement and modernising of other existing aerodromes;
(c) develop additional domestic aerodromes for establishing new lines of air communication;
(d) further improve safety and regularity of flying by providing additional ground facilities and improving existing ones; and
(e) expand training and engineering facilities and initiate a development research programme.

During 1975—80 priorities would, by and large, have to be confined to completion of joint projects, development of new airports in inaccessible areas in Baluchistan and the NWFP, and the provision at major airports of navigational aids and other devices for operational efficiency. The air terminals at Karachi, Lahore and Islamabad should be modernised and expanded on the basis of self-financing commercial establishments.

P I A C

The Pakistan International Airlines Corporation (PIAC) has an excellent record of growth thanks to the initiative of its first Chairman the late Zafarul Ahsan Lari, and the selfless dedication and gallant efforts of its present Chairman, Air Marshal Nur Khan, who has devoted a good part of his working career to the development of PIA. PIA has also been well served by people, like M. Saleem (now with Jordanian Airlines), Enwar Jamal, Captain Abdullah Baig, the late A.I. Shaikh, the late Maqbool Hussain, the late Momi Effendi, and the late Ziaur Rehman, Director of Finance. The success story of PIA reflects an enviable performance for a public sector agency.

The growth rates of passenger traffic on the regional and domestic trunk routes are estimated to be around 10 per cent and 6.6 per cent per annum over the 11 year period of 1962-63 to 1973-74.

International passenger traffic on PIA's network is projected to increase at the rate of 8.7 per cent per annum during 1974-75/1983-84. The initial impetus to PIA's international traffic growth is expected to be provided by two factors, namely, the introduction of wide-bodied aircraft, and the expansion into new markets such as Australia, the Pacific and additional enroute points on the Pak-Europe and Africa flight. A growth of 11 per cent annually in international passenger kilometres is therefore anticipated during 1975—80. Subsequently, the effects of these two factors will wear off and lower growth of 6.3 per cent per annum is predicted between 1980-81 through 1983-84.

With the expected reintroduction of the Pak-India and Karachi-Dacca services, passenger growth rate on the regional routes is estimated to be around 32.5 per cent per annum during 1975—80. Similarly, the domestic trunk route is expected to register an annual growth rate of about 8 percent.

For 1975—80 the following growth rate for both passenger and cargo for international and domestic flights has been anticipated:—

	Annual increase in Traffic (percentage)
(a) Passenger	
(i) International	11
(ii) Domestic	8
(b) Cargo Freight	
(i) International	13.7
(ii) Domestic	13.5

Due to the introduction of wide-bodied aricraft and the proposed 6-pallet Boeing 707 service, the beneficial effects of increased cargo space would be realised from 1974-75 onwards. Taking 1974-75 as a base year, an average annual cargo growth of 11.7 per cent is estimated to be achieved on international routes during 1975-76 through 1983-84. The growth rate during the 1975—80 period is estimated to be around 13.7 per cent per annum. The corresponding growth rates on the regional (base year: 1975-76) and domestic trunk routes are around 13.5 per cent per annum.

The status of the PIA fleet as on March 31, 1975, is given below:

Type of Aircraft	No. of aircraft
1. DC-10-30	3
2. Boeing 707-320C	—
(i) In Fleet	6
(ii) On Lease	2
3. Boeing 720B	
(i) In Fleet	4
(ii) On Lease	2
4. Fokker F-27	
(i) In Fleet	6
(ii) On Lease	2

Based on the traffic forecast, PIA would require the following additional aircraft during 1975—80 to meet increasing traffic requirements both domestic and international; three additional wide-bodied aircraft, two medium haul aircraft, ten helicopters, and four Twin Jet Aircraft (Replacements of Boeing 707).

The Airline will have to purchase additional ground equipment, workshop equipment and flight equipment and procure allied facilities to support the expanding fleet of PIA during 1975—80. Training aids and a cargo building will also have to be provided. The following schemes will be completed during 1975—80; flight simulator for wide-bodied aircraft, hangar and supporting facilities for wide-bodied aircraft, and a new cargo terminal building at Karachi Airport. The total size of the 1975—80 programme has been estimated at Rs. 2,140 million.

In a candid review of the working of the PIA, Air Marshal Nur Khan has acknowledged many faults in the functioning of the Airline, such as pilferage and wastage in some of its departments. Nevertheless, the year 1974-75 has closed with a profit of Rs. 60 million and paid a dividend of 12%, a creditable performance for a public sector company in 1974-75.

The revenues of the Airline increased by 51% from Rs. 1060 million in 1973-74 to. Rs. 1600 million in 1974-75. The expenditure amounted to Rs. 1580 million against Rs. 1060 million during the previous year—an increase of 49%. Some of this increase was due to growth but the bulk of the additional expenditure resulted from inflationary pressure. The annual accounts of the Corporation show an operating surplus of Rs. 20 million and a total surplus of Rs. 60 million. After providing for bonus to staff of Rs. 173 million and contribution to the workers' participation fund, the net profit for the year amounts to Rs. 40 million as compared to a loss of over Rs. 10 million in the previous year.

The Airlines' performance during the year could be better judged from its operational growth, which was the highest for any one year in the Airlines history. Overall capacity increased by 55%, passenger capacity 38% and freight capacity by 63%. Passenger traffic increased by 40% and freight traffic by 66%. Labour productivity, measured by available tonne-kilometres per employee, increased by 40%. According to PIA it is five years ahead of the development schedule it had set itself. The task before the Airline now, as the PIA Chairman put it, is "to consolidate the financial structure of the national carrier and to deal with other drawbacks step by step." This is going to be a far more difficult task than that of expansion. The rapid expansion last year was due to the courageous initiative taken by the Airline when it decided to counter cost escalation by increasing freight and passenger capacity even in the face of international

competition. Production costs increased from Rs. 2.07 in 1972-73 to Rs. 2.17 per kilometre in 1974-75 but considering the great rise in fuel prices this can be considered nominal. Even so, there are plans to bring it down to the 1972-73 level this year. There has been a big increase in the number of passengers since 1972-73 when PIA carried around 700,000 people. In 1974-75 it carried around 1.2 million. Further, cargo traffic was estimated to be 57 per cent higher than for any other period before the separation of East Pakistan (now Bangladesh).

A pleasing feature of the year 1974-75 was that productivity per employee rose by 17 per cent. Salaries accounted for 20 percent of the Airline's total expenditure in 1974-75 whereas the average for European and American airlines is between 30 and 40 per cent.

The Airline's performance on the ground has, however, been far from satisfactory as Air Marshal Nur Khan readily admits. Baggage is not being handled properly and there have been complaints about pilferage in flight kitchens. The Airports lack basic amenities and the main halls appear to be growing smaller and smaller as the increasing number of passengers to handle increases. Seating capacity in the lounges is also inadequate and the restaurants leaves a lot to be desired. Perhaps the Civil Aviation authorities of the Airport Development Agency could pay more attention to the physical aspects of the Airports.

It is to be hoped that passenger and cargo handling will receive the attention they deserve and which they expected as a matter of right in the PIA of earlier years.

POSTAL SERVICES

The development of postal service operations is indicated in Table 23.8.

TABLE 23.8

Postal Service Operations

Year (July-June)	No. of registered letters booked			No. of registered parcels booked			Money orders issued	
	Insured (000)	Ordinary (in Million)	Value payable (millions)	Insured (000)	Ordinary (in Millions)	Value payable 000 Nos.	Number (in Million)	Value (million Rs.)
1952-53	109	6.4	0.5	36	7	223	38	1,780
1954-55	124	7.4	0.63	37	10	229	46	2,179
1959-60	115	10	0.77	49	16	276	51	3,094
1964-65	80	10.8	0.75	71	22	340	59	4,322
1969-70	48	14	0.58	119	25	262	59	5,057
1972-73	39	13.2	0.55	53	22	198	66	6,497
1973-74	45	13.1	0.54	52	22	181	56	6,445

Source: Statistics Division.

The Post Office Department provides postal services in the country, together with certain agency services like savings bank, life insurance, etc. through a network of 8,000 post offices spread throughout the country.

The area and population served by each post office in the provinces is as follows:—

Province	One Post Office serves	
	Sq. Miles	Population
Punjab	15	6,931
N.W.F.P.	30	8,492
Sind	58	13,869
Baluchistan	672	12,167

Each post office serves an area of 40 sq. miles and a population of 8,200 persons on an average. This is a satisfactory level in accordance with the standards set for developing countries in the Second United Nations Development Decade. Still the available facilities are inadequate in outlying and sparsely populated regions.

The rate of expansion has increased considerably since the beginning of the Third Five Year Plan and the Department has been opening about 150 rural and 59 urban post offices annually during the past few years.

The number of new post offices opened in Pakistan during the last 5 years was 117. Some of the important building projects completed during this period were the Karachi City Head Post Office, Karachi G.P.O. and the Directorate-General at Islamabad. An investment of Rs. 25.159 million is estimated to have been incurred during 1970—75.

The present pace of expansion at about 300 post offices per year is considered to be adequate. In less developed areas like Dir, Chitral, Gilgit, Skardu and Azad Kashmir, special steps have been taken to open post offices.

The development programme envisaged during 1975—80 would increase the number of post offices from 8,000 to 9,500; postal buildings from 273 to 343; and residential quarters for employees from 1,800 to 3,300. Mail Motors will increase from 120 to 220 and postal machines from 120 to 320. The cost of the programme is estimated at Rs. 75.00 million with a foreign exchange component of Rs. 2.5 million.

TELECOMMUNICATIONS

Telecommunications generally refer to telephone and telegraph services.

The existing telecommunication facilities are not adequate to meet the commercial and administrative requirements of the country. The number of telephones in 1974 was 2,02,000 which gives a density of 3 telephones per 1,000 of population. Although the density of telephones is comparable with countries at a corresponding level of per capita income, and the annual rate of increase during the last 10 years has been 8.0 percent it has not been possible to satisfy the fast rising demand for new connections, particularly in rural areas. There is a pending list of 68,000 individuals, establishments and organisations for telephone connections. The suppressed demand might be even greater.

Compared with Pakistan's telephone density of 2.8 per 1,000 people, certain other underdeveloped countries in the region had the following densities in January 1973: Burma 1.0; Afghanistan 1.3; Indonesia 1.9; India 2.6; Thailand 6.1 and the Philippines 10.1.

The telegraph service in the country has not progressed satisfactorily in the past, and considerable expansion and modernisation is necessary to meet the increased demand is expected to be generated by 1980.

In the last three years, some action has been taken to remove the imbalance in distribution of telecommunication facilities to different parts of the country. All tehsil headquarters are now connected by telephone. Facilities are being extended to remote areas. Nevertheless, much remains to be done to improve the very low telephone density of 0.5 per 1,000 population in rural areas.

Steps are being taken to provide alternate links between important population centres and to improve the efficiency of the network through modernisation of equipment and administrative measures.

For the period 1970—75, an allocation of Rs. 806 million was made for 120,000 telephone lines and complementary development of telegraph and telephone facilities in Pakistan. Against this, the expenditure is estimated to be Rs. 1,095.3 million. About 80,000 new telephone lines will be added raising the total from 152,000 to 232,000. There will thus be an increase of 52.6 percent and an annual growth rate of 8.8 percent. Complementary facilities like trunk positions and STD Channels will also be augmented.

The number of Public Call Offices (PCOs), in rural areas is expected to increase from 205 in 1969-70 to 284 in 1974-75.

Special attention is being given to the need for providing necessary telecommunication facilities to less developed regions like Gilgit, Chitral, Baltistan and Tribal and other areas in the N.W.F.P. and Baluchistan. Projects for providing trunk lines, opening Public Call Offices and small exchanges, and telegraph facilities with a total estimated cost of about Rs. 120 million have been taken up in these areas.

The long-term trends of economic growth are expected to generate a demand for telephones and other telecommunication facilities at an accelerated rate. Against a growth rate of 8 per cent during the past 10 years, an average rate of 9.5 per cent is aimed at during the next 20 years. The long-term objectives are:—

(i) To increase the number of telephones from 232,000 in 1975 to 1.4 million in 1995, at a compound growth rate of 9.5 per cent per annum, increasing the present density of 3 telephones per 1,000 population to 12 telephones in 1995.
(ii) To develop ancillary trunk systems and subsidiary facilities to cater for increased traffic.
(iii) To continue the process of extension of telephone facilities to remote areas and to rural areas.
(iv) To modernise and improve the services.

In keeping with the long-term objectives, the following programme has been formulated for 1975—80:—

(a) To provide 125,000 additional telephones, raising the total number to 357,000. The average annual growth being 9 per cent, the telephone density should be raised from 3.4 to 4.4 per 1,000 population.T he annual installation will be 25,000 lines on the average compared with 16,000 lines per annum installed during the period 1970—75.
(b) To augment long distance and subsidiary trunk routes capacity to achieve 12 percent annual growth in traffic; provide alternate links between major administrative and commercial centres; connect new places in remote areas and rural areas and increase capacity for international traffic.
(c) To accelerate the extension of telephone facilities to rural and underdeveloped areas by establishing 200 public call offices, raising their number from 284 to 484.
(d) To extend direct dialling to an additional 43 places, bringing the total number of stations to 86.
(e) To continue modernisation and improvement of telegraph facilities and Telex services.
(f) To improve and modernise local manufacturing of telecommunication equipment.

The total cost of the programme is estimated at Rs. 2,000 million, inclusive of all local and long distance facilities. Emphasis will be laid on the geographical expansion of the telecommunications system.

The broad physical targets envisaged for 1975—80 are summarised in Table 23.9.

TABLE 23.9

T and T Facilities: Position in 1969-70 *and* 1974-75 *and Projections for* 1979-80

S. No.	Description	1969-70	1974-75	1979-80
1.	Telephones	152,000	232,000	357,000
2.	Places provided with:			
	(a) Telephone exchange	321	450	600
	(b) Public Call Offices	205	284	484
	(c) All places with Telephone facilities	526	734	1,084
3.	Trunk Positions	390	511	630
4.	STD Channels	560	1,351	2,100

The trunk call traffic during the past decade has grown from 8 million calls in 1962-63 to 26 million calls in 1972-73, at an annual compound rate of about 12 percent. With the introduction of nation-wide systems and increase in socio-economic activities, the traffic is expected to continue to grow at nearly the same rate during the Development Perspective (1975—80) reaching a level of 57 million calls in 1980. To meet this traffic, it is proposed to augment the capacity of the main system and also expand the subsidiary trunk circuits between different traffic centres.

A 960-channel capacity microwave system has been installed between Rawalpindi and Lahore. Another 960-channel microwave link is under construction between Peshawar, Rawalpindi and Karachi. To provide an alternate link on the right bank of the Indus, a 300-channel microwave link connection from Peshawar to Karachi via Kohat, Dera Ismail Khan, Fort Sandeman, Quetta and Bela is proposed. The link will also connect some of the underdeveloped areas of the N.W.F.P. and Baluchistan.

On the subsidiary routes, 3,950 miles of wire and 1,150 miles of new post lines will be installed. One hundred single-channel V.H.F. systems will be provided to connect small towns with the main trunk network for flexibility and also where the erection of overhead lines becomes difficult and expensive.

In view of the expected increase in international traffic, the existing satellite earth station at Deh Mandro, near Karachi, is being improved and expanded, and an international gateway switching centre at Karachi installed.

Telegraph facilities have to be modernised to provide for the speedy disposal of telegrams, telex services have to be extended to more towns, and Gentex Exchanges have to be installed for speedier transmission of telegrams. The traffic estimates in respect of telex and telegraph services are tabulated in Table 23.10.

TABLE 23.10

Traffic Estimates for Telex and Telegraph Service

		1969-70	1974-75	1979-80
(i)	Telex Traffic (Annual paid minutes)	48,000	40,000	800,000
(ii)	Inland telegrams (Million)	3.4	3.6	4.0
(iii)	Overseas telegrams (Million)	1.4	1.9	2.2

During 1975—80 provision has also been made for the modernisation, rationalisation and improvement of production facilities for telephone exchange equipment, teleprinters and carrier equipments at the existing Telecommunication Factories at Haripur and Islamabad.

The Pakistan Telephone and Telegraph Department has been well served by a succession of able Directors General: Colonel Majeed, Colonel Siddiqi, Colonel Mirza, M.M. Hussain and at present by the Director-General, Posts, A. Shakoor.

The estimated revenues and profits of the T and T Department are indicated in Table 23.11.

TABLE 23.11

Revenues and Profits of T and T Department

(Rs. Million)

	Estimated	Projected	
	1969-70	1974-75	1979-80
(i) Assets	967	2,167	4,100
(ii) Revenues	284	415	775
(iii) Expenditure	181	235	375
(iv) Profits	103	180	400
(v) (iv) as % of (i)	10.65	8.31	9.8

The Telephone and Telegraph Department has been earning a profit of nearly 10 per cent on its assets for several years, even though there are some revenue leakages. Suitable measures need to be taken to avoid these leakages.

There are also persistent complaints about the level of efficiency of the T & T Services. It is felt that some of the deficiencies will be removed with modernisation of equipment, although suitable administrative measures are also essential to improve the Department's general efficiency.

RADIO BROADCASTING

Radio broadcasting has proved to be the most widely used mass media communication device in the country. This is largely due to the transistor radio sets, which can be purchased cheaply and operated on dry battery cells.

Until 1969-70, broadcasting comprised only 8 medium-wave and 10 short-wave transmitters. The population covered by radio signals was 78 per cent of the total and the area coverage was only 33 percent. During the period 1970—75, an expenditure of Rs. 148.13 million was incurred. 11 medium-wave transmitters and 4 short-wave transmitters have been added to the system during this period, raising the total transmission power to 1,966 kilowatts (MW) and 1,060 kilowatts (SW). The coverage would have been extended to 60 percent of the area and 93 percent of the population. During 1975—80, the development of broadcasting programme envisages installation of one high-powered 100-KW medium-wave transmitter at a suitable location and three medium-wave transmitters (2-500 KW and 1-100 KW) at Islamabad and one 100-KW at Karachi. Eight small 10-KW transmitters are also proposed for Rawalpindi, Rahim Yar Khan, Lyallpur, Gilgit, Turbat, Khuzdar, Kalat and Naukundi. The area coverage is expected to increase to about 85 percent and population coverage to about 95 percent. The total investment during 1975—80 is estimated at Rs. 399.96 million (F.E.C. Rs. 135 million), Rs. 263.22 million for new development programmes and Rs. 136.74 million for the on-going projects.

When one thinks of the development of broadcasting in Pakistan three names come readily to mind: the late Professor A.S. Bokhari, the late Z.A. Bokhari, and Rashid Ahmed (nicknamed Radio Rashid), who also served with credit as Editor in the Planning Commission. These people were the pillars of Radio Pakistan and they established it on a sound and sure footing.

TELEVISION

The introduction of the other electronic mass medium—television—in Pakistan in the latter half of the sixties was primarily due to the vision of the then Information Secretary, Altaf Gauhar. It provoked a controversy at that time on both economic and political grounds. On economic grounds it was considered a luxury which Pakistan could ill-afford at that stage of its development. People also objected to it on the political ground that it would place a very powerful mass medium in the hands of a political administration which might use it to exclusively project its own way of thinking which might not be in accord with the general good.

The comprehensive medium-term development programme prepared by the Pakistan Television Corporation envisages a total investment of Rs. 621.45 million, including Rs. 298.059 million as foreign exchange. The complete programme is spread over a nine-year period, starting from 1968-69. Of the total cost, an investment of Rs. 212.4 million had been made by the end of June, 1975, while the balance of Rs. 409 million will be spent during 1975—80 or later.

The broad objectives of the programme include promotion of national integration, giving special attention to the needs of remote and less developed regions; extending geographical and population coverage; introduction of colour television and the promotion of educational and extension programmes.

During the period 1970—75, the Corporation envisaged the setting up of a Television Centre at Lahore, two colour television centres at Peshawar and Quetta, 8 rebroadcast centres (booster stations), two super high frequency links in the Northern Areas of the N.W.F.P. and a T&T Microwave Link between Karachi, Lahore, Rawalpindi and Karachi. For programmes transmitted via the satellite over the India Ocean, T and T has a link with the satellite earth station at Deh Mandro, near Karachi. Establishment of Pilot T.V. stations at Peshawar and Quetta was included in addition to the above programme.

Against this the actual programme taken up was:

(i) Television Centre at Lahore.
(ii) Rebroadcast Centres at Murree, Cherat, Sakesar, Thana Bulla Khan, Multan and Malakand.
(iii) Establishment of T.V. Stations at Peshawar and Quetta.
(iv) Microwave Link.

The Corporation is in the process of placing orders for equipment for two colour Television Centres, one Rebroadcast Centre and two Super High Frequency Links. Land for the Quetta and Peshawar Television Centres, Multan Rebroadcast Centre and two Super High Frequency Links at Kurram Garhi-Cherat-Parachinar-Kabul and Murree-Balakot-Naran was acquired. Quetta and Peshawar are now functioning. Work on the main Television Complex in Islamabad was also initiated.

With the completion of the projects, 41 million people (or 60 percent of the total population) and 30 percent of the areas will be covered by T.V. signals.

The Television Corporation proposes to complete during 1975—80 the medium term programme described in the previous paragraphs, to achieve the targets of population coverage of 87 percent and area coverage of 65 percent. The projects proposed to be taken up include the main television centre at Islamabad; three rebroadcast centres at Rojhan, Tando Allayar and Bahawalpur; five translator centres, and nine S.H.F. links.

While the population and area covered by the TV signals are to be extended considerably, its utility will be severely restricted due to the small number of TV sets owned by the people, and the coverage costs per TV set owned by the people would remain high. This situation can be improved by establishing community television centres.

On the basis of projection of TV sets in 1979-80, the population actually benefiting from TV programmes would be 6 million or 8.7 percent of the population covered by TV signals as compared to about 2.7 million or 6.4 percent of the population covered in 1974-75.

TRANSPORT AND COMMUNICATIONS POLICY

A good transport and communications policy has to be a blend of sound economies, fair treatment of the consumer at the hands of the transport and communications media which are generally monopolies, and the promotion of social welfare and national solidarity.

An expensive, inefficient, indolent and impolite system of transport and communications will be ruinous for the country. In the case of State-owned monopolies it could well lead to social upheaval bringing the government of the country into public contempt. In fact the transport and communications media (barring television and broadcasting) should be operated at a net profit of 10 to 15% on the capital invested. But this level of profits should be ensured through efficient operation and avoidance of waste and not by frequent additions to the selling price. If it is the public policy to provide cheap transport and communications facilities then government should be prepared to subsidise the media to the extent demanded by public policy, but as a rule these services should operate on a commercial basis.

The principle of public accountability should be strictly enforced in the administration of these agencies, and they should by no means be used as tools of political patronage and administrative favours. A high code of business ethics should guide their operations and the extension of courtesy to the customer should be the general rule rather than the exception. Pilferage and wastage in the provision of these services should be severely punished, and the oft-heard argument that the standard of ethics in the transport and communications media reflects the general standards of the community should never be permitted to be used to condone their high-handed and corrupt practices. It should be ensured that the cost estimates of projects in the transport and communications sector are worked out with care and abundant caution. They involve huge capital expenditures and upward revision in their cost will completely upset the cost-benefit estimates on which basis they were sanctioned.

The interests of the consumer should be fully protected against the monopoly power of the transport and communications media. The standard of service should not only be maintained but it should be improved year after year. The monopolist must not be allowed to fleece the consumer by charging what the market will bear. The difference between selling price and marginal cost measures the power of the monopolist A.P. Lerner has quantified this power as follows:

$$\text{Measure of Monopoly Power} = \frac{\text{Price minus Marginal Cost}}{\text{Price}}$$

In the case of monopoly, marginal cost is lower than price while under perfect competition both are equal. As indicated earlier a price which gives an efficiently run monopoly in the transport and communications sector with a net return of 10 to 15% on capital invested is reasonably fair. Such projects would still be justified if they yielded a lower rate of return, provided they contributed to a significant earning or saving in foreign exchange.

The communications media should play a leading role in promoting social welfare and national integrity, even if it implies obtaining governmental assistance. There should be a greater interchange of ideas and people from all parts of the country including its remotest extremities. Political brainwashing should be minimal, and radio and television should project the point of view of the government of the day with restraint. The rather unabashed nature of some political commentaries which are heard on TV and radio generally, have a counter – productive effect. Radio and TV should be utilised for intelligent discussions on the burning issues of the day and they would be far more effective if all points of view were represented. This by no means implies encouraging the propagation of anti-State views. A clear distinction needs to be drawn between anti-State views and views which are at variance with those of the government specific issues. The communications media should also cater to the lighter side of life; the entertainment provided by TV and radio is very reasonable indeed in the light of their available resources. There has been one rather unfortunate trend in radio and TV programmes. Under the garb of promoting the development of regional cultures these institutions are in fact attempting to destroy the fabric of Pakistani culture and the solidarity of its people. They are also encouraging feature programmes which intensify the class conflict. One can only

hope that this policy is not a deliberate one; rather that it is the off-shoot of some executive's over-enthusiasm for preserving unity in diversity. A thousand cultural flowers cannot bloom in a developing country without severely straining its political and administrative cohesion. The culture of Pakistan is basically one and the same all over the country; radio and TV should do all they can to keep it that way.

Chapter 24

Planning and Development

Nature, Necessity and Concept of Planning

Political freedom in newly independent countries has led to a general awareness and upsurge of the economic and social emancipation of their people. The depression of the Thirties, the Second World War, and democracy based on adult franchise brought about a dynamic and live situation. The placid and pathetic contentment of the masses became a thing of the past. Everywhere there were new hopes and aspirations and a longing for a new order of things. Strenuous efforts had to be made to meet the revolution of rising expectations and to arouse enthusiasm and public support for constructive activity. The objectives of the efforts generally are to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and the creation of attitudes and values of a free and egalitarian society. Since the bulk of their people live so close to the margin of poverty, their claims of social justice, of the right to work, of equal opportunity and a minimum level of living have great urgency. Apart from any social or humanitarian consideration, these objectives also have political reasons, for no Government which does not recognise the aspirations of the masses for better living conditions and for social justice can stay in power in a free society. Their developmental activity must, therefore, be so organised that the test of production and growth and those of equitable distribution and social justice are equally met.

Economic planning has been well defined by Professor Larwin as "a system of economic organisation in which all individual and separate plants, enterprises and industries are treated as co-ordinated units of a single whole for the purpose of utilising all available resources to achieve the maximum satisfaction of the needs of the people within a given period of time." The essential features of economic planning are:

(i) the dependence of each productive unit upon the entire system,

(ii) balancing of production and consumption and the existence of some unifying centre which can consciously shape the purposes of an economic system and distinct elements.

Planning conceived ideally may be regarded as the elaboration of methods for securing a wise control. It involves the establishment of some kind of Central thinking agency, better equipped to direct where direction is necessary and to withhold where intrusion would be harmful. If planning is to be successful it must have a definite purpose, known and understood by all.

At the present day, control by different national authorities of the main processes of economic activity is rapidly becoming the rule rather than the exception. National planning is the dominant feature of the international economic situation. As a method, economic planning lends itself to various institutional forms and the basic idea of a planned economy, namely, the conscious coordination of economic processes which may be applied in varying degrees and can co-exist with different economic and social institutions.

Professor Gunnar Myrdal in "Asian Drama" has very aptly described the philosophy of planning as being "rationalist in approach and interventionist in conclusions." With his life-long experience and expertise in dealing with the problems of planning and development he has made out a brilliant case for planning in South Asia. He says:

"The basic principle in the ideology of economic planning is that the State shall take an active, indeed the decisive, role in the economy: by its own acts of investment and enterprise, and by its various controls—inducements and restrictions—over the private sector, the State shall initiate, spur, and steer economic development. These public policy measures shall be rationally coordinated and the coordination be made explicit in an over-all plan for a specified number of years ahead.

"The whole complex ideology of planning, in all its manifestations is thus essentially rationalist in approach and interventionist in conclusions. It is committed to the belief that development can be brought about or accelerated by government intervention. Economic conditions, in particular, need not remain as they are or evolve under the influence merely of 'natural forces.' Instead, it is felt that these conditions and their evolution should be under state control so that the economic system can be moved in a desired direction by means of intentionally planned and rationally coordinated State policies. The strategy for these policies would emerge as a set of practical inferences from a rational analysis of the facts in a country's situation and the positing of certain development goals. All those in the South Asian region who urge state economic planning agree, in principle, that it should benefit the common people, concentrate on raising the levels of living of the poorest strata in the nation, and express the will of the nation as a whole.

"This interventionist and rationalist idea of state economic planning represented all the more of a break with the past as the South Asian countries—outside the foreign enclaves—were, and are so largely stagnant, with most of their people traditional in outlook and inclined to accept things as they are. Its appearance in this Rip Van Winkle world, among people still drowsy with the slumber of centuries, makes the challenge of state economic planning all the more dramatic.

"Once the possibility of change by means of rationally coordinated state action is accepted, many, indeed most, social and political conditions in these countries begin to appear undesirable and in need of reform. As the modernization ideology spreads, changes in almost every respect beyond the purely economic come to be regarded as themselves desirable goals for policy. It will seem necessary, for example, to improve levels of nutrition, housing, health, education and general culture; to break up the rigidities of social stratification to equalize opportunities and increase social mobility; to make local and sectional community organization more effective; to extend and intensify participation by the people in such communities as well as in the national community; and to base that participation on more rational considerations of their true interest. State policies that aim at improvement such as these in non-economic conditions have, in addition to their independent value, an instrumental value since the same conditions that are regarded as undesirable in themselves also act as obstacles and inhibitions to economic development; change in them are therefore means for attaining economic development. Causation is circular: not only would improvement in these conditions make possible, or speed up economic development, but the engendering of economic development would tend to improve these other, non-economic conditions.

In this way planning becomes the intellectual matrix of the entire modernisation ideology."

Both Pakistan and India have echoed Myrdal's thinking of planning being the intellectual matrix of uplifting these countries into the modern age. Pakistan's Second Five Year Plan stresses quite explicitly:

"The inter-relationship between many aspects of the development of human resources can be readily demonstrated. When vast numbers of the population are under-nourished, ill-clad, illiterate, sick, under-employed and poor, the energies of the people are necessarily at a low ebb. One deficiency leads to another in an endless cycle of contagion. The economic and human aspects of the plan programmes are also interdependent. Productivity is affected by conditions of health, education, and welfare among the workers and their families. The success of health measures, in turn, is partly contingent upon improvements in housing and public sanitation and levels of literacy and understanding among the people. The emphasis on literacy, and the relative weighing of technical and cultural components at the various levels of education, must be related to the need for better productivity and incentives for higher living standards among various groups of the community."

Prime Minister Nehru in 1950 advised the Indian Planning Commission in similar terms: "Planning consists of integrating and having an over-all view of the general conditions and the trying to progress all along the line, given certain priorities." India's First Five Year Plan reflected Nehru's thinking.

"There is no doubt that if economic and social problems are analysed objectively and assessed in terms of certain well-defined criteria, a course of action best calculated to produce the desired results could be mapped out. Society is no longer content passively to evolve; it wants to develop. Planning is thus purposive adaptation of resources to social end."

Many economies have grown and attained a high level of productive capacity (productive capacity refers to the gross national product that can be produced when all the resources of the economy are fully employed) without any deliberate and premeditated effort at planning. The free interplay of market forces has, in their case, ensured a sustained process of economic growth. It is not wholly correct to say that an unplanned economy is like a rudderless ship moving on uncharted seas with no fixed destination and unlikely to reach one, if there is any.

The main appeal of planning lies in the well-established and widely accepted propositions that planning makes accelerated economic development possible and that it can vitally effect its direction. Capital formation through induced savings can be mobilised through state intervention. Planning can also effect the rate of development by identifying and seeking to remove potential obstacles to planning such as availability of skills, raw material, and specific production capacities. A concerted attempt can also be made by the State to remove the cultural, social, psychological and legal impediments to development; education can play a critical role in this regard. Turkey in the thirties, under Kemal Ataturk, made a gallant attempt to modernise its social structure and it paid rich dividends in terms of economic progress in the past 25 years or so. The rate of economic growth, quite independently of the direction which it takes, is very important because most national economies of under-developed countries are engaged in a race with time, both in terms of population growth as also with one's competitors in international trade. Influencing the direction and composition of growth is also no less important; the content of development takes on an added dimension in under-developed countries where resources are very scarce in relation to the demands made on them for consumption, economic growth, and social progress not to mention the insatiable demands of defence.

THE CASE FOR PLANNING

The case for planning in under-developed countries has been forcefully argued, *inter alia*, on the following grounds:

i) The judgement of the State is superior to that of individual citizens. The State, representing the collective wisdom of a large group of experts well-versed in various spheres of activity, is better placed to direct and coordinate development rather than the individual and isolated decisions of individuals. As Arthur Lewis remarks: "The State now claims to know better than its individuals how many years they should send their children to school, between what hours they should drink, what proportion of income should be saved, whether cheap houses are better than cigarettes, and so on."
ii) Planning can secure a more equitable distribution of economic power than would be provided by the market mechanism. A systematic attempt can be made to reduce inequalities in income, wealth and economic opportunities without affecting the rate of growth and the incentives for saving and investment. The conflicts between growth and economic egality can be better resolved through the planning process.
iii) Labour can be more adequately protected in a planned economy as against one in which market forces operate freely. This point would not be valid under conditions of perfect competition, but unfortunately market imperfections are generally the order of the day.
iv) Planning can also attempt to obtain better terms of trade through bilateral and barter arrangements.
v) Planning can reduce the extent of economic instability occasioned by international recessions and booms. It can also influence the rate and direction of domestic growth to secure relative stability.

vi) Planning provides the mechanism for inducing major economic and social changes in an orderly fashion. Private enterprise would be relatively helpless to bring about far-reaching changes over a short period.

vii) Planning can eliminate wasteful competition and thus ensure optimum distribution of resources in the productive process.

viii) Planning can ensure a coordinated developmental effort. Professor Dobb has rightly questioned the emergence of an orderly growth from the conflict of a myriad independent and autonomous wills, while Lerner has likened an unplanned economy to an automobile without a driver in which many passengers keep reaching to the steering wheel to give it a twist.

ix) Sound planning can help to avoid shortages (whether artificial or real), prevent monopolies, and cartels and reduce social costs (such as polluted environment, industrial accidents and overcrowding).

Not everybody accepts the philosophy of planning. There are still eminent people like my old teacher, Professor Friedrich Hayek, and Professor Milton Friedman who are literally appalled at the growing acceptance of the concept of planning. In his great polemic, "The Road to Serfdom", Professor Hayek brilliantly analysed the defects of central planning and attempted to demonstrate the tendency for such planning to destroy political freedom and establish a totalitarian society. Ironically enough this book is dedicated to "socialists of all parties"; he must have had in mind the products of the London School of Economics and Political Science who spread the Fabian message of democratic socialism through central planning.

Professor Milton Friedman has rather passionately argued the case against Central Planning: "Wherever it was tried, central control of the economy was a failure. In Britain, successive versions of central planning have produced today's stagnation, raging inflation and bitter internal divisions that threaten the maintenance of British democracy. In the former colonies, central planning has stifled economic growth, produced widely shared misery and undermined democratic institutions. India is the most tragic example.

"France's indicative planning was mostly talk—and France prospered. Germany rejected central planning and, under Ludwig Erhar's guidance, moved in the opposite direction. The dramatic success of Germany's free-market economy reinforced the lesson of British failure.

"What explains the failure of central planning? Can no planning be better than planning? That semantic trap confuses the real issue. The real issue is not planning versus no planning, but what kind of planning, by whom and for what purpose.

"The central planners want planning by them for us. They want the government—by which they really mean themselves—to decide social priorities (i.e. tell us what is good for us); rationalize production (i.e., tell us where and how we should work); assure equitable distribution (i.e., take from some of us to give to others of us). Of course, all this can be voluntary—if we are willing to turn our lives over to them. Otherwise, anti-social behaviour must be restrained—who can gainsay that? The iron fist must be there—just in case.

"Such planning from the top down, is inefficient because it makes it impossible to use the detailed knowledge shared among millions of individuals. It undermines freedom because it requires people to obey orders rather than pursue their own interests.

"I am for planning, too, but planning by each of us separately in the light of our individual, though shared, values, coordinated by voluntary exchange in free markets. Such planning, from the bottom up, insists the interests of each in promoting the well-being of all. Government has its role—to provide a stable, legal and monetary framework, enforce contracts and adjudicate disputes and protect us from coercion by our fellow citizens. If we could limit government to these, its proper functions, perhaps it could perform them successfully.

This is a plan too—a far better plan than establishing yet another Federal agency to control our daily lives."

Whatever the course of the international debate on planning in non-communist societies, the concept of planning and orderly development has become an accepted way of life in the under-developed countries. For popularising and practising this concept the credit must be shared by the two leading nations of South Asia, Pakistan and India. Professor John Kenneth

Galbraith has summed up the position rather well in his book, "Economic Development in Perspective": "There is much that the market can usefully encourage and accomplish. But the market cannot reach forward to take great strides when these are called for. As it cannot put a man in space so it cannot bring quickly into existence a steel industry when there was little or no steelmaking capacity before .. To trust to the market is to take an unacceptable risk that nothing, or too little, will happen."

FACTORS AFFECTING GROWTH

There are many factors which contribute to economic growth, just as there are quite a few factors that impede the developmental effort. The first group directly affects the rate of economic progress while those factors which fall into the latter groups tend to pull down the tempo of development. One should be quite clear about the concept of growth. Growth in national income is the net effect of changes in productive capacity and changes in the utilisation of this capacity. It would be difficult to sustain changes in national income on account of changes in productive capacity over a number of years unless and until circumstances can be created to fully utilise that productive capacity. The standard of living of a country depends on the real per capita income in terms of constant prices. The growth in real per capita income would understate the growth in per capita productive capacity because:

i) with rising living standards the percentage of working population will decline as retirement age is reduced, education and training periods extended, and fewer family members are required to work to support the family; and
ii) with the increase in national income, hours of work are reduced and people also take greater time off in the pursuit of leisure.

Thus the increase in per capita national income is larger in the case of the employed population as compared to that for the population as a whole.

The increase in real per capita national income per hour of the labour force is indicative of the increase in the capacity of human effort to produce goods and services; this is referred to as a rise in labour productivity. The increase in the per capita national income of the population is indicative of the availability of goods and services for the population. Generally speaking, economic growth should mean the rise in productive capacity of a country on a per capita basis, but in under-developed countries economic growth is taken to mean the per capita availability of goods and services.

Obviously a faster rate of growth is preferable to a slower one, but the snag is that such a goal can only be accomplished at a certain cost, and that cost is the sacrifice entailed in terms of persent standards of living. The choice has to be on the extent of the present sacrifice to be undertaken in order to achieve some specified future gains. The future benefits of growth have to be weighed in relation to the present costs, reflected in the measure of self-denial entailed. With scarce resources in relation to the demands on them, almost everything has an opportunity cost. Economic progress which produces more goods tomorrow is achieved by consuming fewer goods today. This is the primary cost of growth for the economy as a whole. But there is also a more personal set of costs of growth. Rapid growth can cause misery to affected individuals, such as those who lose their jobs on account of technical advances. Innovation leaves obsolete machines and it also creates a class of partially obsolete people; a well-equipped man at 25 is, in the absence of study, quite obsolete at the age of 55. Many skills, too, become antiquated.

In the under-developed countries growth is not only necessary for raising the general standards of living of the population and for coping with the increase in population; it is also more important than any other consideration, including the redistribution of income. A country where per capita income increases at 3% per annum would double its living standards every 24 years. In this dynamic world people cannot wait that long and the under-developed countries would do well to aim at an annual per capita growth of 6 to 9%, or, if possible, of 9 to 12%. There is a positive link between the availability of savings (whether domestic or foreign) and

national income. The higher the rate of savings the faster the growth of national income. The volume of investment may be governed by a number of factors. The only limiting factor is the availability of savings and, therefore, an increase in savings, which leads to an increase in investment is the most important means of increasing the rate of growth.

In the past 200 years the world has witnessed a magnificent rate of growth. A London economist Norman Macrae in a sweeping global survey has elaborated on this in brilliant fashion: "On the first day of our Lord, when the order had gone out from Caesar Augustus that all the world should be counted, there were probably around 250 million beings, with an average annual income per head of $100 in terms of today's money. On the first day of the United States, on July 4th of 1776, there were probably around 700 million human beings, with the same average annual income per head. The world then stood at one minute to dawn after 10,000 years of technological stagnation."

The average Roman citizen in AD 1 seems to have had a slightly higher annual income (guessed at today's equivalent of just under $300 a head) than his successor citizen 1775 years later in the next great republic (just under $200 a head for the United States in 1776). The man of 1776 used much the same energy sources as the man of AD 1 (animal muscle, wind and water); he could travel much the same tiny maximum distance per day; he used much the same materials for tools (wood and iron) and had much the same average expectation of life (to his late 30s or early 40s). although Rome's standards of big city sanitation were better. Rome reached a population of a million, which no subsequent city dared to do until London after 1800, because the million-people-megalopolis did not seem safe under post-Roman but pre-1800 standards of cleanliness, plague control, law and order protection, and unmechanised transport of peasant of feudal agriculture's products into the towns. The two really big technological advances between AD 1 and 1776 were in killing power (gunpowder by 1776 had several times the killing area of arrows) and information technology (Gutenberg's printing press after 1441 increased the circulation potential of each written word several hundredfold).

Then, shortly after 1776, all the charts scattered through this survey accelerated dramatically.

Between 1776 and 1975 world population has increased sixfold, real GWP (gross world product) eightyfold, the distance a man can travel a day between a hundredfold and a thousandfold, the killing area of the most effective megadeath weapon over a millionfold, the amount of energy that can be released from a pound of matter over 50 millionfold (with much more to come) and the range and volume of information technology several billionfold (although how do you compare the range of an orator's voice in 1776 with Neil Armstrong's telecast from the moon to everybody's drawing room, or an abacus with a computer?) Note that the things which cause the GWP to increase (potential energy, information technology, etc.) have already increased by thousands or even millions of times more than the GWP itself, so that there is a lot of existing technology still to work through to living standards as well as even more new technology to come. In 1975, when it is fashionable to forecast that world growth is about to stop, technological realism suggests that growth is more probably at an early stage of an extraordinary acceleration.

The eightyfold increase in real GWP since 1776 has been based on man's increase in control over matter and energy, at a pace that has risen in each of the last 20 decades after having stood still in the previous 10,000 years. To this matter-cum-energy revolution, there has been added in the past two decades a breakthrough in the processing of information (computers, etc). and a nascent breakthrough in the distribution of information (telecommunications by satellite, the beginnings of packaged and computerised "learning programmes", may be even at least a start towards understanding of the learning process itself).

During 1950—73 real GWP was increasing at an annual average 5%, which meant that it doubled about every 14 years. It will be surprising if during most of America's third century 1976—2076 the world does not have the potential to grow considerably more quickly than that. But note, first, that even if only 5% annual growth were continued, then by 2045 today's $5-1/2 trillion GWP would be over $175 trillion and by 2059 it would be over $350 trillion. My guess is that by 2059 world population might be around 15 billion, and people probably would not want a GWP much higher than that trebling for every human of America's present GNP

per head. Two-thirds of mankind are still living at pre-1776 levels of under $300 a head. The other one-third of us have average incomes between five and 25 times as high.

The main factors affecting the rate of growth are:—

(i) *Capital formation:* At present capital accumulation is the most important limiting factor in the present day economic growth of the less developed countries. Capital certainly occupies the most strategic position in the process of economic development. At one time capital accumulation was regarded as the sole source of growth although now this view is regarded as being rather extreme; the will and the effort to foster growth and the accumulation of knowledge and its application are also considered to be pre-requisites of economic growth. It has generally been observed that communities in which per capita income is increasing very slowly invest only 5 to 6% of their national income, while progressive economies invest 12% or more per annum of their national income.

Professor Lewis rightly points out that there is no nation so poor that it could not save 12% of its national income if it wanted to. So far poverty has not prevented nations from trying to secure an atomic arsenal or from launching a war, or from wasting their substance in prestigious spectacles and conspicuous consumption.

In the earlier fifties Professor Colin Clark made some calculations of the capital needs of Pakistan according to which the country needed savings at the rate of 12.5% per annum just in order to absorb the increase in labour force at the past rate of increase in productivity. On the basis of 1950 prices and on the assumptions that 40% of the population is in the labour force, that 80% of the labour force is engaged in rural occupations, that population increases at the rate of 1.5% per annum, and that capital investment of $1,000 is required per person, the Food and Agricultural Organisation calculated that for a population of 100 million people an annual investment of $920 million would be required to achieve some degree of industrialisation, or more specifically this would be the amount required to move one percent of the farm population into non-farm occupations. Assuming a fourfold increase in prices in the past 25 years and with a population of say 65 million people the annual capital requirements in Pakistan in 1975 to carry through a limited programme of economic development would be $\$\frac{65}{100} \times 920 \times 4$ million $=\$2392$ million. This would give an indication of the enormously high costs entailed in implementing a modest programme of industrialisation. Thus not only has domestic capital formation to be stepped up greatly, but it also has to be substantially supplemented by foreign aid and foreign investment.

(ii) **Technological growth:** Inventions and innovations contribute significantly to economic growth. Old equipment and techniques are replaced by more productive equipment and more efficient techniques, and thus national income grows more rapidly because of the growth of knowledge rather than accumulation of more capital. The assembly line and automation have transformed the production process, electronic devices have revolutionised communication, and computers are beginning to take over functions thus far reserved for the human mind. New alloys and new seeds have profoundly affected the pattern of production, whether industrial or agricultural. LDCs can achieve rapid growth by using modern techniques of production and distribution already practised in the industrialised countries which acquired them after spending vast sums on research and development. But the "technology gap" may persist on account of the lack of vision and trained personnel required to introduce and adapt this technology. The frontiers of knowledge and their practical application are apparently limitless and so perhaps is the extent of economic growth. The Club of Rome may try to curb economic progress by throwing up the ghost of a Frankenstein which will destroy the world because Man is destroying the environment and over-consuming the gifts of nature. But man will not for long dominate man to his injury and the new frontiers

of Science and Technology will lead to a Kingdom of God that will never be brought to ruin.

(iii) **Quality and quantity of labour:** Education and technical training not only pay the individual but also society as such because it raises the value of per capita output. Productivity improves with literacy; literacy also enable labour to be more adaptable to new and changing conditions. There is no element of exaggeration in saying that improvements in the quality of human capital play a substantial role in the economic growth of the industrialised nations. It should, however, be appreciated that labour is not just a uniform input into production but rather a mixture of labour and "embodied" capital. The size of the population also affects the level of per capita output; one speaks of over-populated and under-populated economies in relation to whether the contribution to production of additional persons would decrease or increase the level of per capita income. Once production does not increase in proportion (or more) to increase in population, then output per man must fall and this is by no means a healthy situation. In such situations nations seek to limit population growth and this is true of all non-oil producing LDCs.

The efficiency of all kinds of labour can be increased by education. In the early stages most countries have to choose between erasing illiteracy and increasing the level of mass education, or on training a small cadre of scientific and technical specialists. Typical five-year plans provide for ambitious school buildings, teacher training and curriculum revision, all of which result in little visible change in a mere matter of five years. Some LDCs concentrate on training a small number of highly educated men many of whom regard education as the passport to a new aristocracy rather than as a mandate to serve their fellowmen. But the fact remains that under-education of almost all kinds is a serious impediment to the economic growth of LDCs.

Substantial increases in productivity can also be achieved by raising the standards of health of the labour force. A healthy labour force puts in effective effort and valuable time is not lost due to illness and fatigue. Studies have indicated the favourable impact on production from eradication of certain diseases. Good health can be a mixed blessing when lower death rates lead to a higher rate of population growth. But this factor should by no means inhibit better public health measures.

The trend popularly referred to as the "Brain Drain" has engulfed the less developed countries where the relatively few technicians are moving to fresh and greener pastures. The attraction of higher salaries seems to have destroyed all sense of pride of performance in the national effort. In Pakistan during the last three years there has been a big exodus of technical personnel and skilled workers from the country to the Middle East and European countries. Although no data on the migrating manpower is available, planner feel that the process of plan implementation might be jeopardised by the shortages of required skill. Complaints are already pouring in of shortage of engineers, managers, doctors and craftsmen. The sector which is believed to have suffered most on this account is construction and house-building. Not only have a large number of engineers gone abroad; some construction companies have also secured contracts in friendly countries. The result is that for some specialised and big projects it has been found necessary to import construction firms from abroad, and in some cases it has been very difficult to find qualified bidders for projects, particularly in the outlying areas.

(iv) **International Trade:** In the absence of international trade, a country would have to progress simultaneously on all fronts and its growth would be seriously hampered by limitations of financial, technological and human resources. Among other advantages that trade provides is the opportunity to achieve economies of large-scale production by also catering for the export market as well. Economic growth with foreign trade generally causes severe balance of payments problems. The demand for capital goods and imported raw materials and spare parts creates pressures enough on the import

side, but in addition an increase in disposable income leads to an increase in demand for imported consumer goods. This problem can be partially met by developing exports with rapidly expanding foreign demands, and by developing import-substitute industries, including to some extent those for the comforts and luxuries of life.

(v) **Social and Legal Institutions**: The traditional social structure can impede the process of economic growth. Certain religions are more conducive to economic growth than others. Islam stresses the work ethic more than most religions and the concept of reward is related to the nature of work. It is also said that some codes of ethics encourage the acquisition of wealth and, therefore, encourage growth. If certain religious and social beliefs inhibit growth then over a period of time they are bound to be replaced; the process of change should not be deliberately accelerated beyond a generally acceptable rate. Legal institutions, such as the pattern of ownership of land and natural resources, can affect the way in which such resources are used and may thus affect productivity. Large agricultural estates owned by absentee landlord or small and fragmented holdings are hardly conducive to the application of modern agricultural technology. There may also be little motivation to introduce advanced techniques into agricultural and industrial production if the threat of nationalisation constantly hangs over the heads of entrepreneurs like the Sword of Damocles.

(vi) The **growth of nationalism** on the right lines can have a profound impact on economic growth. Chinese nationalism and Russian nationalism have significantly advanced the process of economic growth over a relatively short period of two to three decades. The concept of nationalism hardly existed in Europe in the Middle Ages and it was only after the Renaissance and the Reformation that the Church lost its dominant position. The creation of fairly stable states in which the feudal class did not play a dominant role led to a "national" identification. With economic development and the growth of industrialisation the European nationalistic ideal began to gather momentum. The emergence of the middle class and its clamouring for influence in society intensified nationalism since this class was more responsive than others to nationalistic ideas. As Gunnar Myrdal has pointed out: "only in the setting of a consolidated national state could this new class unfold its economic, cultural, and political ambitions." In South Asia, on the other hand, the demand for economic development and industrialisation was part and parcel of the national independence movement and this gave a new dimension to the urgency of economic development at the dawn of independence. In Europe the path for national nationalism was prepared by universal education but this was missing in Asia. European nationalism remained rational despite its romanticism. In Asia, as Myrdal has pointed out, the spread of the planning ideology represented an injection of radical and irrational attitudes in regard to society and its dynamics in the fade of man's illiteracy.

(vii) **Climatic Conditions**: Climatic conditions in the temperate zones of the Western world are conducive to productive effort. The climatic hazards can be overcome in the under-developed countries but they are expensive and add to the cost of growth. The soil can be improved, water logging and salinity controlled, animals and human beings better housed, medical facilities improved, air-conditioning popularised, and insects controlled, but all these involve huge investments and large recurring expenditures which these countries can hardly afford.

(viii) **Economic and Social overheads**: The establishment of economic and social overhead capital is absolutely necessary for a growing economy. The economic overheads consist of roads, railways, ports, communications facilities, power installations, and technical training facilities. The social overheads include schools, hospitals, libraries and public health measures. These categories of investments raise labour productivity and reduce costs of production in most sectors of the economy. The establishment of these facilities is a great boon for the processes of production and distribution. The greater part of public investment in the earlier stages has to be devoted to the creation of economic and social overheads. Most of this investment, barring items like power

installations and railways, is not directly remunerative. Most of this investment is financed by taxation and loans. This investment raises the marginal productivity of private investment and steps should, therefore, be taken simultaneously to promote private investment.

(ix) **Banking:** Banks in under-developed countries serve as the link between private saving and investment; inefficient banking will exaggerate the problem of finding funds for investment. Distrust of banks and of deposit money will impede economic development even if people are willing to save. Honest and efficient banking can be a powerful influence on economic growth for better or for worse.

The state of the administration and the various policies pursued by government have a profound impact on economic growth. A society where there is law and order, where fundamental rights are enshrined, where the rule of law reigns supreme, where there is no large or petty tyranny and where there exists a stable and rational system of administration can take great strides towards economic progress. No fiscal, commercial, monetary and industrial policy can be a good enough substitute for the basic requirements of a just and free society. Nevertheless, the existence of sound economic policies is an essential requisite for accelerated economic progress. Again not only should such policies be development-oriented, they should also be closely coordinated.

CONTROLS BREED CORRUPTION

The existence of widespread corruption acts like a cancer on the economic effort and destroys its vitals over a period of time. The proliferation of corruption at political and administrative levels has been a most unfortunate concomitant of accelerated growth in almost all under-developed countries. Shortages breed controls, and the more extensive and intensive the controls the greater is the proliferation of corruption. In under-developed countries another powerful factor stimulating corruption is the authority and discretion given to petty officials at the public dealing level. The policeman, the water tandel (the junior supervisor for canal irrigation), the patwari (juniormost echelon in the agricultural administration set-up), the customs appraiser and preventive officer, the excise inspector, the income-tax inspector, the electric metre reader, telephone operator, the railway booking clerk, and the judicial assistant play with the destinies of one and all, rich and poor alike. Fortunate indeed is the citizen who can save himself from the petty tyrannies of these petty officials. Corruption at all political levels of administration has become a way of life in the under-developed countries and a political career is taken to be a passport to untold wealth. The greatest danger to the institution of democracy, which is either at a nascent level or is paid more lip-service in almost all less developed countries, is the ingrained and widespread political corruption. People might well prefer to forego democratic institutions if intolerable corruption is necessary to sustain them.

It is unfortunate that democratic institutions have not been permitted to strike deep enough roots in the under-developed countries. India which was once boosted as the world's largest democracy, has in 1975 been reduced to a state when its leadership has to cajole youngsters to proclaim:

"*Children repeat after me with ecstacy;*
India is the World's largest democracy."

The leadership in quite a few under-developed countries has experimented with extensive social and economic reforms which have gravely upset their socio-economic structure and put them back several years. They can be likened to Uncle Jim in the old nursery rhyme who tried to learn swimming in a duck pond and even there he had to face a tide:

"*Jemima, Jemima, where is your Uncle Jim?*
He is in the duck pond learning how to swim;
First he does the breast stroke and then he does the dive,
And now he is in the duck pond swimming against the tide."

The leaders of the developing countries, indeed probably of all countries, should carefully study Edward Gibbons "The History of the Decline and Fall of the Roman Empire." Gibbons

believes that it was the lack of supporting structure behind the impressive forms of government that doomed Rome. Gibbons sets out the structure prevailing in the heyday of the Roman Empire:

"In the second century of the Christian era, the Empire of Rome comprehended the fairest part of the earth, and the most civilized portion of mankind...(The) peaceful inhabitants enjoyed and abused the advantages of wealth and luxury. The image of a free constitution was preserved with decent reverence; the Roman Senate appeared to possess the sovereign authority ..." Augustus Caesar who ruled from 27 B.C. to 14 A.D. "wished to deceive the people by an image of civil liberty, and the armies by an image of civil government." He left the Senate its pomp and privilege yet he reduced its authority and so the deception succeeded. It proved to be irreversible.

By the end of the 2nd Century, the Senate was ready to vote for any bully or bribe-giver. Power finally passed on to the swaggering Praetorian Guard who auctioned off the Crown to the highest bidder. By the middle of the Third Century the central Roman government became so weak that the Persians captured Emperor Valerian, skinned him and stuffed him with straw.

Objectives and Strategy of Planning

Planning has come to be accepted in under-developed countries as the panacea for all economic and social ills. The origin of this belief lies in the popular image of the successes of Communist nations based on a rigid and regimented institutional structure of planning. The basic premise of successful planning is the existence of popular support for its avowed objectives. Of course the ideal planning is one which is inspired by the people according to their needs and which enjoys their complete support. This would only be possible if the objectives of planning aroused the imagination of the people and they could look forward to being liberated over a reasonable period of time from hunger, ignorance, disease, squalor and idleness. In fact people as such do not share in the preparation and execution of development plans and there is little general awareness of the economic and social consequences of development. Although all plans lay a good deal of emphasis on securing the cooperation and participation of the public yet in practice it has not been found possible to enlist general support in the required degree.

In the under-developed countries planning has always been imposed from the top, although gallant attempts are made to sugar-coat the objectives with high-sounding verbosity in order to pander to public sentiment. Thus it is that almost every plan everywhere talks of reducing disparities in individual and regional incomes and wealth although the authors know for a fact that accelerated economic development will increase such disparities rather than reduce them. Similarly, the social sector is always emphasised, despite the knowledge that economic growth and social welfare cannot be developed at the same time at the same rate for the simple reason that there are not enough resources to fully meet the requirements of both these objectives. Then there is the fad of balanced growth and in an under-developed country this is almost impossible to achieve in the earlier years of planned development.

The objectives of planning depend on a political scale of judgement of human values. This implies the cooperation of politicians and technicians. The politician should provide the social value judgement based on his evaluation. The technician should then elaborate on the factual position and the feasibility and consequences of practically implementing the value judgement of the politician. Such an analysis does pose problems and ultimately it is the technicians that implement those objectives of the plan which they consider desirable and practicable according to their own value judgements.

The concept of time is important in planning. One should plan for air-conditioners in Pakistan but that should be left for the distant future. As of now the more urgent objectives should be the elimination of hunger and a marked reduction in ignorance, disease, squalor and idleness. Targets should have a time-dimension. There could be long-term targets, short-term targets, or interim targets. A target to be achieved over a long period, say 30 years, may represent the ultimate policy objective in the sense of achieving a new economic balance. Short-term and

interim targets do not require the same degree of balance, since in the phasing of a development programme some sectors might perhaps move ahead of the general line of advance. The economy would then develop through a process of stimuli and adjustments, or a temporary "disequilibrium system". Usually, however, some sort of balance is planned within a plan period, say of five years.

A country may also set some interim targets within the plan period, e.g., annual targets in Pakistan. At the end of every year, another year is added and the new programme is adjusted to changed conditions. Thus, the plan periods overlap. Under the system, targets are continually being revised, and the most important task is the fulfilment of the annual interim targets.

"Targets" may assume the nature of "projections" when they are based on what is likely to happen by some future date, under certain assumptions, by letting things follow their own course without special efforts or new policies on the part of the government. This is likely to happen where, in the effort to make the targets realistic, no more than minor adjustments for the possible effects of new measures are made. In this case, the planning authority does not want to risk setting a target too much in excess of the country's ability to achieve it within a specified period.

Targets in the public sector differ in nature and significance from those in the private sector. While the former are direct indications of a policy with intention to implement on the part of the government, the latter usually represent either guesses of what is likely to happen, or a statement of what the government would like to see happen, or would intend to stimulate, by appropriate policies in the private sector. However, for certain large and/or strategic industries, the government may have definite policies (including allocation of materials and labour, provision of credit facilities, etc.) designed to induce the private firms to reach certain production targets so as to enable other related fields or industries to achieve their targets. The stronger these policies, the closer the private sector targets resemble the public sector targets in nature.

A fully integrated development programme contains a set of consistent and inter-related targets. This requires that not only the various aggregates but also aggregative (collective) and sectoral targets should be consistent with each other. The choice of primary aggregative targets concerns concepts like consumption, investment, income, and employment. Once determined these aggregative targets determine in turn the broad pattern for sectoral targets.

Matters relating to sectoral targets, aggregative targets, the sectoral approach and revision of plan targets were discussed in depth at an ECAFE meeting in 1955 in which the author also participated. The findings of this ECAFE Working Party are still quite valid.

Sectoral targets, broadly speaking, may be fixed at two stages: (a) production and consumption on final goods and services, and (b) requirements and supply of intermediate and capital goods as well as transport and energy services. In a way, the latter stage is part of the formulation of investment requirements and budgeting of material and manpower resources rather than of target-setting, although it is customary to refer also to targets for the production of intermediate goods, e.g., steel. To formulate a set of consistent targets, a planning authority may proceed from given aggregative targets to the setting of sectoral targets or the other way round. The former way is the so-called "programming approach"; the latter may be called the "sectoral approach." A planning authority may also adopt a "mixed approach", using both methods. All these methods require adjustments.

Coordination of aggregative targets: It is important that the aggregative targets should be well co-ordinated. The co-ordination between income, investment and consumption targets may be sought through a system of national accounts and through the estimation of the incremental capital/output ratio as well as the incremental saving-income coefficient. The latter involves either assumptions regarding the consumption function or the adoption of certain government policies towards private consumption. The quantitative relationship between incremental employment and investment depends on the capital/labour ratio, which can, to a certain extent, be varied by adapting technology to the requirements of a country. Essentially, both the overall capital/output ratio and the overall capital/labour ratio depend on the pattern of investment.

Coordination of aggregative targets also has an international aspect. Exports determine, roughly, the capacity to import, while the degree of import substitution and the capacity of domestic production to expand under the stimulus of increased demand generated by higher export

earnings (especially in export-dominated economies) between them determine a set of feasible overall targets. This coordination should be based on foreign exchange budgeting.

From aggregative targets to sectoral targets: Once a set of inter-related aggregate targets is established, the rate of planned increase in national income, investment and employment is known. The problem is to determine how much final output should be produced in order to meet the increased demand arising out of larger income.

If the consumers sovereignty is respected, consistent production targets of principal groups of consumption goods and services can be obtained on the basis of the estimated income-elasticities of demand, that is the percentage changes in demand as a result of a 1% change in incomes.

The derivation of targets of capital goods for the fulfilment of the investment target and those of intermediate goods required for the fulfilment of the consumption targets are somewhat less complicated than the targets for the final bill of goods, since no income-elasticities are involved, and the requirements of intermediate and capital goods are determined by technical relationships and coefficients.

On the other hand, determination of agricultural and non-agricultural targets in relation to each other involves knowledge and anticipation of complicated economic relationships. The consistency of agricultural output with increases in non-agricultural output involves, in addition to technical relationships and demand elasticities, assumptions concerning agricultural price policy, response by farmers to changes in demand and prices, changes of agricultural self-consumption on farms, etc. The same is true when non-agricultural targets required for increases in agricultural output are considered. Super-imposed on these are the circular relationship of agricultural and non-agricultural targets arising from the input-output matrix.

After the sectoral production targets of final output are set, the net problem before the planners is to determine the various investment projects to fulfil these targets. Once the individual projects are formulated, the total investment requirements will be known by summing up the capital investment requirements of all individual projects. If the total thus arrived at is not equal to the previously determined overall investment target, then the aggregate targets of investment, income, etc., the sectoral targets, and/or the individual projects have to be adjusted until they are mutually consistent with each other.

"The sectoral approach": Where a relationship between income and demand cannot be well-established or where the government wants to modify the consumption pattern, the tool of income-elasticity of demand cannot or will not be used in target-setting. The most conspicuous examples in this connection are education, health, and other social services. In these cases, the planning authority may set the targets according to certain directives established by the government. Moreover, where data on income-elasticities of demand are not available, the programming approach does not lead to sectoral targets. In such circumstances, the "sectoral approach" may be used; or specific targets may be set from which related targets are then derived.

In this approach, the sectoral production targets may be fixed according to the projection of past trends of consumption or production of individual commodities or broad categories of them. However, an extension of past trends may result in too-low targets and an unchanged pattern of consumption and may thus not represent the desired economic development if the previous rate of growth has been too slow. In using past trends for fixing targets, certain subjective modifications have to be made. It may also be that previous trends reflect mainly the results of slow marginal adjustments whereas the development programme may be designed to produce structural changes.

The sectoral approach may also fix arbitrarily the production targets according to desirable consumption levels of various groups of commodities.

The sectoral targets of final output thus fixed are normally in terms of physical units. Sometimes, they may also be expressed in terms of some factor of production, e.g., the target of food crops in terms of acreage of cultivation, or the target of meat or milk production in terms of the numbers of livestock required. Once the sectoral production targets of final goods are set, their value (at given prices) can be totalled, giving the aggregative target of consumption. It is obvious that while production targets of individual commodities or factors can be in physical terms, targets of aggregates or whole sectors must be in terms of money value, constant prices or stated changes in prices being assumed for this purpose.

Once targets for "strategic" sectors or even for "strategic" commodities have been laid down, related targets can then be derived from the initial targets.

The deficiency of these methods is that they fail to link production targets with effective demand. Thus, it is possible, if the income-elasticity of demand for some food crops happens to be small, that the planned increase in their production may be too large and may result in an undesirable fall in their prices and in the income of the producers, unless there is an increased export demand. To some extent, the trend of past imports may indicate the volume of domestic demand which can be met by an increase in domestic production, and production target may be set with the aim of replacing a certain portion of such imports.

Once the sectoral production targets of final goods are set, the next step is to formulate individual investment projects to achieve these targets, which include also projects for producing intermediate goods, energy, and transport services, etc. Sometimes, investment projects are selected based more on some general idea of the "need" of the country than on direct derivation from the targets for the final goods. When these projects are formulated, the aggregative investment target can be arrived at by adding up the investment requirements of these individual projects. The planned projects usually consist partly of a few major and uncompleted projects commenced before the plan period and partly of a number of new projects. When the period required for the completion of a project exceeds the overall plan period, the part falling within the plan period should be estimated, making possible the summation of investment requirements.

If a planning authority adopts the "sectoral approach" for fixing consumption and investment targets at both sectoral and aggregate levels, aggregate consumption and investment have to be reconciled by taking into consideration the possible levels of income and the consumption function. It is likely that, in order to avoid undesirable inflation on the one hand and underutilization of resources on the other, both aggregative and sectoral consumption and investment targets will have to be repeatedly adjusted to each other in order to reach a balance and a satisfactory pattern of investment.

If the planning authority proceeds from the investment end only, by the sectoral approach, then overall investment has to be balanced with overall availability of financial resources. In this case the planning authority has to estimate the saving potential at the projected income levels, taxable capacity, government borrowing capacity, the availability of foreign resources, etc. The balancing of investment and saving involves further adjustments of the income level and sectoral production targets and investment requirements.

Some industries have a long gestation period, while for some others there is a short time-lag between incurring the investment expenditure and the reaping of fruits. While comparing the benefits of the extra output with the costs, the cost of the time-lag must never be forgotten. Unless eventual benefits are very high, priority should be given to those industries or production techniques which have a relatively short time-lag. Mr. Hicks has called such industries "quick investment" type. In a developing economy with a high inflationary potential and a need for a rapid rise in the living standards, industries which have a high "fruition coefficient" (i.e., a high ratio between output and investment) and also a short 'fruition-lag' should generally be preferred. This point is particularly important when one is comparing the two ways of producing the same result. Thus extra agricultural output may be secured by major irrigation schemes or minor irrigation schemes. By and large, the major irrigation schemes are regarded as less desirable than the minor irrigation schemes, because of the time-lags and high capital costs of the former unless the eventual benefits are very high.

Revision of targets: The setting of targets should be matched by a picture of available resources. The resources available at the beginning of the development programme are matters of analysis and fact rather than of target setting. But it is possible to precede the formulation of a development programme with policies to increase available resources to a target level set for the initiation of a programme. The resources expected to be available in the course of the development programme—and as a result of it—can be influenced by policy measures and can therefore become, in a way, matter for target setting.

An important question is the definition of "available resources." It will be clear that if existing foreign exchange reserves, the capacity to raise credits abroad, the availability of foreign

aid, the expansion of output which may result under inflationary pressure, etc., are all included under "available resources", then output targets are always matched *ex-post facto* by available resources, insofar as these targets are in fact achieved. An "excessive programme" would then be defined as one in which the resources have been made available at the undue expense of foreign exchange reserves, resources available to the private sector, future capacity to import, etc.

If, in the course of implementation of the programme, it is found that certain expected resources are not available or that certain unexpected resources have now become available, then the targets and the programme may have to be revised downward or upward, as the case may be. As such a situation may well occur, especially in countries where statistics are inadequate, agricultural income is fluctuating, and foreign exchange resources are uncertain, it would be better to make the development programme and the targets somewhat flexible. One way of achieving such flexibility may be to plan certain individual projects as marginal projects which can be either added to or deleted whenever the circumstances so require. Some of these marginal projects may be labour intensive and some capital intensive, to be included according to the availability of the respective resources. In the Philippines, in almost every sector, proposed projects are classified in three priority groups: highly essential and very urgent, essential and urgent, and essential but not urgent. This helps to make the programme flexible. Vietnam also divides the programme into three parts, although on somewhat different principles. Of course, in adding or deleting certain projects from the programme, the planning authority should not overlook the effects on other projects, sectors or industries. To avoid distortion of the inter-industry balance, the main programme may be kept relatively moderate and supplemented by a few subsidiary programmes, which, well co-ordinated in themselves, may be introduced when additional resources are found to be available.

CRITERIA

The determination of development priorities is based on one or more of the following criteria:—

a) **Social productivity:** Once the aggregate and sectoral production targets of final goods and services are set, the next problem is to formulate an investment programme, consistent with the man-power and other resources available, for achieving those targets. In any sector, different methods of production, or different ways of combining production factors, may be adopted for achieving a certain production target. The choice of production technique depends mainly on a country's endowment of natural resources, man-power and capital. Also, targets cannot be set independent of the methods of achieving the targets, since the methods to determine the resources required and availability of resources determines feasible targets. Moreover, the development of one sector or one industry will have repercussions on other sectors or industries through inter-industrial demand and supply. In a choice of investment, such repercussions have also to be taken into consideration. An investment programme can be determined finally only after certain investment criteria are also given. Further complications are introduced by the necessity to create a general economic "infra-structure", including "basic investment" or overhead capital not clearly or directly related to specific industries or a specific demand function.

With given resources and with given primary targets and investment criteria, a development programme can be formulated if all the inter-industrial demand and supply relations are known. Where elaborate techniques for deriving these relations cannot be applied, as will be the case in the circumstances prevailing in most less developed countries, some other simple technique has to be used in order to foresee possible production bottlenecks, excess capacity, or the accumulation of excessive inventories.

The estimation of import requirements and export possibilities is important for any development programme. If domestic resources are not adequate, additional finance can be obtained only within the limits of what is possible by running down foreign exchange reserves, or by additional external loans or aid, or by a combination

of all these measures. The incorporation of external aid in the development programme is of special importance.

Investment will, in most countries in the region, be carried out both by the government and by private entrepreneurs. Definition of the precise role of the public and private sectors in a development programme and achievement of mutual stimulation and assistance will entail certain measures of policy as an integral part of a development programme. Just as techniques of production and targets are difficult to separate, so targets and policies are also in practice inseparable.

Under private enterprise, allocation of factors of production depends on the profit motive, and equalization of marginal private product tends to be achieved if there is perfect competition with factor mobility. The need for development programming and for the modification of choice based on the profit motive arises because the maximization of profit (from a given investment) is not necessarily identical with the maximisation of the net social benefit that accrues. The difference arises from possible divergences both in the definition and in the valuation of costs and benefits of development projects. Thus, the development of social or economic overhead capital where immediate direct return cannot be expected has little or no place in the calculations of the private entrepreneur. The formal criterion in the determination of investment allocation is, therefore, the equating of long-run marginal social productivity of investment in different sectors, or, in other words, the maximization of the total net increment to the national product wherever accruing, directly or indirectly.

b) **Aggregate investment**: Special problems arise in determining the general priority of investment over more immediate consumption. Because of the very low level of income in most of the less developed countries, preference for the present is strong. In addition, there is a large element of uncertainty concerning the future, resulting in high liquidity preference. These factors cause high market rates of interest in many countries, which, together with the difficulty of keeping costs low in the absence of basic public services, tends to prevent large-scale postponement of present consumption for the sake of future consumption. From the point of view of social productivity, therefore, a development programme may use criteria other than the market rate of interest in a choice between present and future.

c) **External economies**: In an "integrated" development programme, it is one of the most important criteria of investment to take advantage of the inter-relationship of different sectors and different industries. This leads to the objective of creating a stronger general basis ("infrastructure") for the economy, by which a variety of investment can be made economically possible. The provision of overhead capital, such as transport, communications, and power and the improvement of health and education, may lower the cost functions for a large variety of industries and help in creating conditions favourable for industrialization; the difficulty with such investments is that they call for large outlays and frequently take a long time to fructify; the benefits of many of them are, furthermore, intangible and indirect. Yet, such indirect and intangible benefits must be very large wherever the development potential of the economy is also large. It is not surprising that overhead capital has been given considerable weight in the development plans of LDCs. The decision regarding determination of priorities between the production of capital goods and consumer goods is, to some extent, interlinked with the creation of external economies. The existence of capital goods industries at home may help in the cumulation of industrial expansion and serve to create external economies for the consumption goods industries. On the other hand, the capital goods industries tend to be capital intensive and, thus, to absorb high shares of available capital if priority is given to them. In countries where the domestic market is limited, there may obviously be no advantage, even in the long run, in establishing heavy industries at home; and even in larger or wealthier countries the social productivity of these industries may only be high enough to justify priority if a fairly long view can be adopted. This therefore leads back to the question of

time period of planning and popular willingness to forego an increase in consumption.

A related criterion of selection is provided by projects which are designed to take advantage of inter-industry relations, e.g., between industry and agriculture. Such projects include:

(i) those which open up possibilities of utilization of domestic raw materials or components which would otherwise remain unutilized, or the production of which can be initiated or increased under favourable conditions;
(ii) industrial projects which are of particular benefit to farmers, such as production of agricultural tools, fertilizers, insecticides, etc.;
(iii) industries resulting in the utilization of waste products previously unutilized;
(iv) projects to supply other sectors or industries with productive equipment or to assist them in the better repair, maintenance, or replacement of their capital, e.g., engineering industries and services.
(v) projects which help to revitalize or maintain existing small-scale or handicraft industries, e.g., production of pedal-power looms.

d) **Maximisation of employment:** In more densely populated countries projects using surplus manpower for capital formation could have high social productivity. The economic growth of mainland China in recent years is believed to be due mainly to the fuller utilization of surplus manpower with a minimum use of equipment for all types of activity, including capital formation. Most less developed countries have an abundance of labour and a shortage of capital, and cost-benefit calculations based on social productivity, therefore, may indicate a pattern and technique of investment which economizes in the use of capital and maximizes the use of labour. Maximization of employment may thus become a priority criterion, as it may also be a dominating social and political objective. Labour-intensive methods of capital formation are easily applied to the construction of roads, canals, dykes, digging of wells, drainage and land reclamation projects, soil conservation projects, reafforestation, etc., which can help in raising productivity (especially of agriculture) without mechanization. In China, and, to a lesser extent, in Burma and India, such projects have been undertaken by unpaid or partly paid labour, which reduces inflationary pressures. Also, the fact that certain sectors or industries tend to be more "capital-intensive" than others should not obscure the possibilities of increasing the degree of labour-intensity, project by project, in all sectors.

Another argument in favour of less capital-intensive methods of production is that they allow technology to develop gradually along with the improvement of technical knowledge and of skills in operation and management. Obviously, this course cannot always be followed; in certain cases, the incorporation of the latest techniques of production is of obvious advantage. Thus, for instance, under-developed countries setting up steel mills or petroleum refineries can with advantage borrow the improved production techniques of industrially advanced countries; in certain other directions, however, where savings in capital investment are large and the sacrifice in labour productivity small, a less capital-intensive method may be preferable. Where the capital/labour ratio is low, the output/labour ratio may legitimately be lowered for individual projects.

In India, the problem of unemployment has been attacked by reserving certain industries for cottage industry or small-scale production. The investment priorities are thus influenced by the primary target of fuller employment. There arises the question of how far improvements in productivity ought to be sacrificed to fuller employment. The answer to this dilemma will often lie in reference to the criterion of maximizing total social product, using the marginal productivity of labour (very low or nil where there is a surplus) as a "shadow price" in computing costs and benefits. In many ways, fuller utilization of resources—whether man-power or other resources—has ambivalent effects; while labour-intensive methods may reduce productivity of each unit of labour, total product may be increased because of larger employment. There remain, however,

cases where policies dictated by the criterion of fuller employment and the desire to maximize output may not be immediately reconcilable.

There is a possibility that over-emphasis on labour-intensive processes of production, especially when promoted through prolonged government protection or subsidy, may impede the introduction of machinery or the more economic use of man-power even when the time is ripe and render more difficult the progressive subsequent improvement in labour productivity essential to development. The number of workers employed and the aggregate capital invested in these processes may be so large that a change-over into more capital-intensive processes becomes costly; protection or indirect subsidies may have distorted the real cost structure and may hide a comparative disadvantage. A possible solution is to try to organize production in such a way that it can be mechanized with small alterations, or to organize the division of labour in such a way that mechanisation can be introduced stage by stage if necessary.

Low Capital-output ratio: Quick-maturing projects obviously offer relatively lower capital/output ratios from the immediate point of view, but not necessarily a lower ratio when a longer period is considered. The time element plays a key role in the concept of capital/output ratio used as an investment criterion; generally, it would seem better to consider the ratio over a longer period, although quick-maturing projects have a special advantage where there is a high inflationary potential or where present resources are very scarce.

Likewise, when applying the criterion of capital/output ratio to specific investment projects or specific sectors, the supplementary benefits of any project to other economic activities should be considered although these cannot easily be measured. A project with a high capital/output ratio may lower the capital/output ratio for the economy as a whole; obviously, the investment criterion ought to refer to a low over-all capital/output ratio.

In a way, the lowering of the present capital/output ratio conflicts with the creation of a capital base for the economy, which is likely to involve relatively capital-intensive investment (and may also take some time to fructify, thus temporarily raising the capital/output ratio). The balancing of the need for basic investment and the criterion of lowering (immediately) the capital/output ratio must depend on the special circumstances in each country, particularly concerning the inflationary potential and the possibilities of raising the marginal savings rate. The availability of foreign resources may also have a considerable bearing on a decision between these two criteria.

The criterion of a low capital/output ratio for determining investment priorities has limited validity where unused (natural and other) resources can only be developed after a heavy initial investment, or where the possibilities of import substitution, which may be necessary for balance of payments reasons, occur chiefly in capital-intensive sectors.

Balance of payments effect: Foreign exchange is an extremely important and usually scarce factor, and in development programming, therefore, priority may be given to those projects which economize the use of foreign exchange or increase the supply of it. In the under-developed countries, a more rational utilization of foreign exchange will make it possible to carry out a larger investment programme. Apart from the special advantages of foreign exchange, its present scarcity will often enforce such a priority. The balance of payments effects also has an important time element. Construction precedes operation, and a foreign exchange saving in the construction phase often is bought at the price of greater foreign exchange requirements for operation at a later stage or *vice versa*. Obviously, in such circumstances the choice will depend on the availability and requirement of foreign exchange at present and in the future in the context of the development programme. In addition, there may also be, for different projects, different indirect balance of payments effects from the initial foreign exchange,

different operating effects, and different balance of payments effects from the subsequent changes of income and consumption.

In practice, the foreign exchange criterion is easiest to apply in the case of projects which lead to direct import substitution. Where direct export promotion is involved, the project has the advantage that the transfer part of the repayment problem created by foreign investment is automatically solved, so that the project is liable to prove attractive to foreign capital and thus lead to an expansion of total available resources.

The foreign exchange criterion reinforces the general presumption arising from inter-industry relations that emphasis should be placed on projects in which the chain reaction of stimulation—through higher demand or through the creation of new production facilities—is kept as much as possible in the country. This criterion, in its turn, should be balanced by a regard for comparative advantages in the long run, and there are limits to the degree in which a difficult present foreign exchange situation should be allowed to interfere with long-term investment allocations—otherwise a temporarily necessary evil may be elevated to a general principle.

Stability: In certain countries projects may claim priority on the ground that they reduce instability. This will apply especially in countries which derive a large proportion of their national income from the export of a few primary commodities; these countries may desire to achieve diversification of production largely in order to reduce instability arising from the fluctuations of foreign demand. The extent to which diversification will also contribute to a higher level of income obviously depends on the resource endowment of each country. Even if comparative advantage is in favour of the present concentration of production, there may be a choice between higher but fluctuating income and lower but more stable income. In general, however, diversification in carefully selected directions is likely to be of advantage *per se*. Light industries such as textiles have recently been developed in several countries without much protection. Obviously, diversification of agricultural production will depend on soil, climate, irrigation etc., but in the field of industry development can be more widely stimulated provided there is a market for the product, and the necessary skill for efficient operation. The criterion also applies to countries which wish to establish industries in order to process the food or raw materials previously exported, since more highly processed commodities tend to be less subject to violent price fluctuations.

In addition to the problem of external stability, there is the problem of internal stability as a criterion for determining investment allocations. Internal stability can be promoted by making the economy less dependent on agriculture, which is subject to unpredictable weather conditions, and more generally by diversifying the economy. To some extent, of course, stability and diversification can also be achieved within the field of agriculture; irrigation is a case in point since wet farming is less dependent on the weather than dry farming, and "mixed farming" introduces the possibility of fuller employment as well as diversification within agriculture.

The maintenance of internal stability often means the avoidance of inflation. The pressure of rising incomes on supplies of food and other basic necessities plays a strategic role in causing inflation when a development programme is initiated. Thus, the need to forestall inflation when incomes increase as a result of the development programme would suggest a certain emphasis on food production, food distribution, transport, and the building up of food reserves in areas in which development takes place. Forestalling of inflation further suggests some priority for essential consumer goods and also emphasis on projects with a short gestation period. An emphasis on shorter-term or quick-yielding projects away also be justified on certain practical grounds; they minimize risks, they keep resources fluid until it is possible for the economy to take up the latest production techniques, and they make development planning more popular and acceptable.

Most of the aforementioned criteria for the determination of development priority will obviously be in conflict with one another. The criterion of the creating of external economies might conflict with the criterion of low capital/output ratio, as well as with the balance of payments criterion; the development of rail transport, fuel and power resources are generally capital-intensive and have also a relatively high import content. The total size of the available investment funds also frequently modifies priorities of development. In general, where resources are very scarce and current savings small, heavier investments may sometimes have to be postponed and quick-yielding projects become more attractive; again, where the possibility of imports of capital equipment is severely limited, the pattern of priorities will obviously be different from a situation where there is greater availability of external resources. The priorities accorded in non-oil-producing LDCs indicate that the resource endowment in this region favours the fuller use of the available man-power for increasing current income and stepping up the rate of capital formation, so that a more rapid pace of development (through capital-intensive projects) may be undertaken more easily in subsequent time-periods.

There are three problems which have an important bearing on the strategy of planning:—

i) role of the public and private sectors;
ii) removal of individual and regional disparities; and
iii) balanced growth.

Rôle of the public and private sectors: Agriculture, which is the dominant economic activity in the underdeveloped countries, is left to the private sector with the solitary exception of forests and plantations. Small industries and crafts are also left to the private sector. The public sector operates in the transport and communications sector (with some exceptions in the case of road transportation), heavy industry, defence industries, mines, power and water sectors, banking, insurance, and education and health. But looking at it from a future perspective the private sector is shrinking relative to the public sector and the share of the State in the mixed economy is increasing. The role of the State in economic growth is becoming more strategic and it is assuming the dominant position in determining the character and the functioning of the economy. The private sector is also directed and controlled in the interest of planned development. The planning ideology seems to imply public ownership in certain sectors and public regulation and control in all the others. Although this trend may probably be irreversible it is worthwhile dealing with the question in a broader perspective.

While planning for a rapid rate of economic growth, we have to face a question of vital importance, whether it is through public enterprise or it is through private enterprise guided and encouraged by Government policies that a rapid rate of economic growth can be achieved. The decision on the alternative choice, or a blending of the two is largely conditioned by the political philosophy that a country is following. In countries dedicated to a socialistic pattern of society as a national objective, the public sector is utilised to the maximum extent whereas a country stressing the market mechanism and private property makes the maximum use of private enterprise in achieving its national objectives and entrusts to the public sector only such functions which the private sector is unable to perform and those which are essential and of strategic importance.

It has been argued that a rapid expansion of the public sector would materially contribute to increasing public savings for investment, thereby making it possible to increase the rate of growth. The particular advantage of the expansion of the public sector from this point of view is that a possible conflict between efficiency and distribution of income is, to a large extent, eliminated. Increased profits, which in the private sector would create inequalities and possible conspicuous and wasteful consumption, can in the public sector be directed towards capital formation. By efficient operation and following a rational and economically sound price policy a public enterprise can secure adequate returns on capital employed and contribute its full share in increasing the portion of national resources devoted to investment. The basic point put forward in favour of public enterprise is that the profits which accrue do not belong to an individual or a group of individuals as in a corporate private business. Also the private sector has to be controlled by regulations but in the public sector the pattern can be controlled in a positive way.

Public enterprise seems to have certain advantages in achieving a rapid rate of economic growth. The question, however, arises whether high rate of growth can be attained by encouraging and guiding private enterprise through incentives and fiscal and other policies without recourse to public enterprise. It is possible that through incentives and fiscal and other policies government can guide private enterprise into desirable channels. This will ensure a high rate of growth and the maximum freedom to private enterprise. The argument that in the development of private enterprise only a few individuals or a group of individuals would benefit does not hold good in the present private enterprise system. The present pattern of development of a free society is that individual proprietorship, partnership and private limited companies are increasingly being replaced by public limited companies wherein any member of the society can participate and share the benefits. Thought is being given to modifying the institution of managing agencies to prevent its abuse as a means for continuous control over the affairs of a large company with a comparatively small investment. Moreover, the accumulation of wealth in a few hands can be discouraged through fiscal and other policies, thereby reducing the economic disparity among various groups of people.

In recent years the wisdom of developing public enterprise under rigid centralised planning and making it the chief source of achieving national objectives has been criticised even in countries that are following a socialistic pattern. The experience gained in these countries indicates that public enterprise has not been as efficient as private enterprise and that if the facilities available to public enterprise had been accorded to the private sector, development would have been faster and greater. There are certain distinct advantages in the private sector which make it more conscious of profits and costs, and in more flexible in operation than the public sector. The professional executive class has still a long way to go to develop in countries such as Pakistan. Even in the industrialised countries of the West, pecuniary benefits such as share options and profit-sharing by way of bonuses have to be provided to the business executive class to give them the private enterprise flavour and avoid what Parkinson calls the "built-in efficiency" of public corporations.

Removal of individual and regional disparities: The removal of individual and regional disparities in income and wealth has been enshrined as an article of faith by almost all less developed countries. Gradual reduction of such disparities is an understandable and reasonably attainable objective over a period of time, but their elimination would require Aladdin's Lamp which is probably not possible to discover in this age. This principle comes into direct conflict with the overriding necessity for capital formation, increased production, and greater efficiency in the under-developed world. This is not to argue against achieving an acceptable degree of equality of opportunity. The first condition for securing equality of opportunity and achieving a national minimum is assurance of gainful employment for all. In an under-developed country failure to provide gainful employment can be traced to certain fundamental deficiencies in the economic structure. This deficiency can be removed through sustained investment in those sectors of the economy which contribute to a high rate of economic growth and consequently to greater employment opportunities.

As a country progresses, the level of unemployment is reduced and a stage is reached when social security, employment benefits and such other schemes can be undertaken. In the early stage of economic development embarking on such schemes, will, due to paucity of resources, either spread the benefits so thinly that they will not be felt or will cover only a restricted number of people, which will not be socially desirable. Such programmes should follow the establishment of a substantial economic base and not precede it.

Balanced growth: The rate of aggregate investment is important in macro-economic terms but the pattern or composition of investment is equally important. The State attempts to influence the pattern of investment so as to promote it on lines most beneficial to society. In theory at least planners attempt to secure balanced growth between agriculture and industry. The earlier view stressing the agricultural sector alone has gone out of fashion. The existence of a good deal of unemployment and under-employment, which would grow with the increase in population, has led to increasing emphasis on non-farm occupations. There is also a close inter-relationship between the agricultural and industrial sectors. The debate between balanced and unbalanced growth has ranged for a long time.

Nurkse has urged the case for balanced growth. According to Nurkse a vicious circle is at work in the so-called under-developed countries which stands in the way of economic development and accordingly, if this vicious circle can be broken, economic development will follow. This vicious circle operates as follows: Inducement to invest depends ultimately upon demand, i.e., the size of the market. And the size of the market in turn depends upon productivity because the capacity to buy is ultimately based on the capacity to produce. Productivity, in its turn, largely depends on the use of capital. But for an entrepreneur the small size of the market will limit the use of capital so that productivity will remain low. thus keeping the size of the market small. The vicious circle will then repeat itself.

The output of any single industry newly set up with capital equipment cannot create its own demand. Human wants being diverse, the people engaged in the new industry will not wish to spend all their income on their own products. Suppose a shoe manufacturing industry is set up. If in the rest of the economy nothing happens to increase productivity and hence the buying power, the market for the additional output of shoes is likely to be deficient. People outside the shoe industry will not give up the consumption of essential food. clothing. etc.. to create a sufficient demand for shoes every year. The supply of shoes is likely to outrun demand and thus the industry is likely to be a failure.

The way out of this impasse, according to Nurkse, is: "The difficulty caused by the small size of the market relates to individual investment incentives in any single line of production taken by itself. At least in principle. the difficulty vanishes in the case of more or less synchronized application of capital to a wide range of different industries. Here is an escape from the deadlock; here the result is an overall enlargement of the market. People working with more and better tools in a number of complementary projects become each other's customers. Most industries catering for mass consumption are complementary in the sense that they provide a market for, and thus support, each other. This basic complementarity stems in the last analysis from the diversity of human wants. The case for balanced growth rests on the need for a balanced diet."

Taken separately, a number of industries may be unprofitable so that the private profit motive would not suffice to induce investment in these industries. However, undertaken together in a synchronized manner a balanced increase in production would enlarge the size of the market for each firm or industry so that the "synchronized undertaking" would become profitable. This wave of capital investment in a number of different industries is called by Nurkse "balanced growth."

Singer and Hirschman have called for a judiciously planned unbalanced growth. Singer maintains that the balanced growth doctrine might be better expressed as follows: "A hundred flowers may grow whereas a single flower would wither away for lack of nourishment." Singer agrees that the slogan "stop thinking piecemeal and start thinking big" is sound advice for under-developed countries, but he also feels that there are "several areas of doubt" about the balanced growth theory in its Nurksian form.

First, if the balanced growth doctrine is interpreted as advice to underdeveloped countries to embark on large and varied packages of industrial investment with no attention to agricultural productivity, it can lead to trouble. At the initial stages of development, as the income grows with new industrial investment and employment, the relatively greater demand would be created for food and other agricultural goods. In order to sustain industrial investment, the agricultural productivity would have to be greatly raised. Thus the big push in industry must be accompanied by a big push in agriculture as well, if the country is not to run short of foodstuffs and agricultural raw materials during the transition to an industrialized society.

But when we start talking about varied investment packages for industry and "major additional blocks of investment in agriculture" at the same time, we run into serious doubts about the capacity of under-developed countries to follow the balanced growth path. Singer quotes Marcus Fleming: "Whereas the balanced growth doctrine assumes that the relationship between industries is for the most part complementary, the limitation factor of supply assures that the relationship is for the most part competitive." Singer adds: "The resources required for carrying out the policy of balanced growth.... are of such an order of magnitude that a country disposing of such resources would in fact not be under-developed". The doctrine is premature rather than wrong, Singer

concludes. It is applicable to a subsequent stage of self-sustained growth rather than to the breaking of a deadlock. For launching growth "it may well be better development strategy to concentrate available resources on types of investment which help to make the economic system more elastic, more capable of expansion under the stimulus of expanded markets and expanding demand." He instances investment in social overhead capital and removal of specific bottlenecks as examples of such "strategic" investment.

The fundamental trouble with the balanced growth doctrine, Singer further concludes, is its failure to come to grips with the true problem of under-developed countries, the shortage of resources. "Think Big" is sound advice to under-developed countries, but "Act Big" is unwise counsel if it spurs them to bite off more than they can possibly chew.

Moreover, the balanced growth doctrine assumes that an under-developed country starts from scratch. In reality, every under-developed country starts from a position that reflects previous investment and previous development. Thus at any point of time there are highly desirable investment programmes which are not in themselves balanced investment packages but which represent unbalanced investment to complement existing imbalance.

According to Professor Hirschman, the real scarcity in under-developed countries is not the resources themselves "but the ability to bring them into play". He divides the initial investment into two related activities: (a) directly productive activities, and (b) social overhead capital. An under-developed country may follow the method of unbalanced growth by undertaking initial investment either in social overhead capital or the directly productive activities. Whichever the type of investments, it will yield an 'extra dividend' of induced decisions resulting in additional investment and output. He contends that social overhead capital and directly productive activities cannot be expanded simultaneously, because of the limited ability to utilize resources. Thus the planning problem is to determine the sequence of expansion that will maximize induced decision-making. Balanced growth (of social overhead capital and directly productive activities) is not only unattainable in most under-developed countries, it may also not be desirable. The rate of growth is likely to be faster with chronic imbalance, precisely because of "the incentives and pressures" it sets up. Having demonstrated the virtues of strategic imbalance, we are left with the problem of discovering what kind of imbalance is likely to be most effective. Any particular investment project may have both "forward linkage" (that is, it may encourage investment in subsequent stages of production) and "backward linkage" (that is, it may encourage investment in earlier stages of production). The task is to find the projects with the greatest "total linkage". The projects with the greatest linkage will vary from country to country and from time to time and can be discovered only by empirical studies of the "input-output tables."

In determining the sequence of projects, planning authorities should also give attention to the alternation of "pressure-creating" and "pressure-relieving" investment. In countries with vigorously expanding private enterprise sectors, the government's function can be largely limited to "pressure-relieving". As private investment takes place, shortages and bottlenecks will appear in transport, public utilities, education, and other activities traditionally assigned (in whole or in part) to public enterprise in such societies. Governments ought not to feel "restless and slighted" when confined to this "induced role."

Where expansion through private investment is not assured, the Government's role must be more active. For example, it might build an iron and steel plant. "It is interesting to note", says Hirschman, "that the industry with the highest combined linkage score is iron and steel. Perhaps the under-developed countries are not so foolish and so exclusively prestige-motivated in attributing prime importance to this industry, because of the high total linkage effects of iron and steel industry". The building of it by the government will lead to a spurt of investment a variety of fields. This investment in turn will reveal deficiencies that the government must fill up. When filled, further private investment will take place and so on.

Balanced growth is probably outside the capability of under-developed countries even if it were desirable, and it is difficult to dissociate completely from the views of Singer and Hirschmann. China and the USSR, and to a certain extent India, appear to have followed the "unbalanced development" approach. But for countries whose governments are responsive to the immediate difficulties faced by the populace it would be desirable to maintain some semblance of balanced development.

Writing in Pakistan's Second Plan the late Said Hasan (then Deputy Chairman, Planning Commission) observed: "The nation aspires to a standard of living for all its people, as high as can be achieved with the resources available to it; equitable distribution of wealth; education of all in accordance with their talents; victory over disease; adequate facilities for transport and communications so that the nation may be effectively unified economically and socially; and evolution of the national culture in literature and science. The above are the social and economic objectives of Pakistan's Planning." The then Finance Minister M. Shoaib wrote in 1965: "The economy of Pakistan during the last five years has shown an almost remarkable dynamism and has on many economic strategic fronts surpassed the projections of the planners, projections which, by many people well qualified to judge in this sphere, were thought to be too optimistic in their assessment of the growth possibility of Pakistan. However, what many of those people had not taken into account was the tremendous value to economic growth which is to be found in political and administrative stability."

The late Field Marshal Mohammed Ayub Khan (then President of Pakistan) made the following points in his message at the time of introducing the Second Five-Year Plan: "A striking feature of the Plan is that the approach to the Second Plan is realistic. No grandiose programmes are recommended. No dramatic effects are sought to be made for the sake of such effects. What is attempted is to state as precisely as possible what the national aims are, and how and how far these aims can be achieved in the next five years. The tasks that are set are not easy and will call for high endeavour, but they are neither fanciful nor impossible tasks. The Plan is an operations programme. It indicates the direction along which development should proceed; and it states the essential requirements, of resources as well as of effort, if the country is to go forward at a pace and to the point which will set it firmly on the road to economic and social advancement.

"I shall now tell you, in broad terms, what our immediate purposes must be, and how the Plan seeks to achieve those purposes.

"First, we must increase the wealth of the country by determined effort to raise our agricultural and industrial production. In agriculture, our primary aim must be to grow enough food on our own soil to feed the nation. We must, therefore, increase our foodgrain production by a fifth or more in the next five years to achieve self-sufficiency. To this end, as the Plan recommends, we must carry out radical improvements and extensions in our agricultural operations, by bringing water to new lands and putting them speedily under cultivation, by fighting the evergrowing menace of salinity and waterlogging, by better farming methods, by more widespread and intelligent use of improve seeds and fertilizers. Also, we must improve and enlarge our livestock, make better use of our extensive range lands, and exploit more fully our excellent fisheries.

"Provision is included in the Plan for a number of gigantic irrigation schemes whose completion will be a matter of proper national pride. Provision is also made for pumps and tubewells to improve the water supply as well as counter salinity and waterlogging. The fertilizer production will be increased twelvefold in the next five years; seed multiplication will be undertaken on a large scale; and plant protection measures will be improved and applied extensively.

"In industry, we must aim at substantial but selective development. We must make a special effort to build up those industries which offer the best hope of success either because of the presence of our own raw materials, the qualities and skills of our people, pressing needs in the country, or market prospects abroad. The Plan proposes, for instance, the expansion of cotton textile and jute industries by one-third or more, and of sugar manufacture by one-half. It recommends also a decisive effort to build up small-scale industries which have a considerable development as well as employment potential. There are opportunities in industry which the private investor, both national and foreign, should exploit to the full. He shall receive the maximum encouragement.

"Second, we must earn our own living in the world by exporting more of what other counries want to buy from us, and by making for ourselves more of the goods we have previously imported. This is a basic assumption of the Plan.

"Third, we must provide work for our people as the number of persons entering the labour market grows year by year. The plan aims at finding work for new entrants to the labour force and reducing the existing volume of unemployment.

"Fourth, we must improve the social services—education, health, and housing especially. The Plan provides for more and better primary schools, sufficient to educate three out of five of our children by 1965. It proposes to increase the number of students in secondary schools by a quarter, and to expand the scale of university education. There is special emphasis on technical education, for in this age of science and technology, we can make no progress if we do not develop technical skills of a high order. Education is an investment in human resources and on it, more than on any other single factor, depends the social and economic development of the country. Good health is vital for any nation, especially for a nation on the move to better things.

"The Plan lays stress on ridding the country of the scourge of malaria, tuberculosis and small-pox. Health services will be expanded steadily as more doctors and nurses are trained. Housing remains a black spot on the face of our country. Much has been done recently to provide adequate dwellings for hundreds of thousands of our countrymen, but the problems created by the growth of population and the great drift to the towns have made a bad situation worse. However, the Plan makes a systematic attack on this menace to health and happiness. All displaced persons will be finally resettled and a beginning made, within the available resources, to deal with the colossal problems of slum clearance and improved housing.

"Finally, we must do all we can to help the less prosperous areas of our country. The Plan makes special provision for expanding agriculture and industry, and for improving the social services in the less developed areas of East and West Pakistan. No part of the country should be a brake on the rest; and the nation should move forward as a whole to greater well-being, the more fortunate helping the less fortunate.

"But having indicated how the Plan proposes to raise the nation's wealth and welfare, I have told you only half the story. If the Plan is to succeed—if all these gains are to be realised by you—they have to be won, not just picked up like free gifts. Planning for progress means investing for tomorrow the resources which we might have chosen to spend today. The Plan will cost some 1900 crore of rupees during 1960 to 1965. To find resources of this magnitude will be no easy matter. Happily, we have good friends abroad, and it is hoped that by aid, loans and investment, they will provide a very substantial part of the resources. Our friends have stood by us in the past, and I am confident that they will stand by us in the future. Their help, past and future, is a token of their faith in Pakistan. We must justify that faith. By far the larger part of the resources, we must find ourselves. We must do this, first, by hard and intelligent work; second, by increasing our voluntary savings to the utmost. Many of our fellow-countrymen cannot afford to save anything, and it would be a mockery to call on them to do so. Many others can and must. We must do our utmost to raise the resources for the Plan. To the extent we succeed in raising these resources, the Plan will be implemented.

"One further matter I must mention: the problem of rapid growth of our population. Healthy and happy families are an essential part of the better life we plan for ourselves in the future. But if the present rate at which the population is growing continues, it will undermine all our efforts to uplift the nation. Apart from that, excessively large families are an unfair tax on the health of the mother, and a source of constant anxiety to the conscientious father. Planning for a sensible size of family, therefore, is a vital condition of progress to prosperity. Without widespread acceptance and support, family planning may well fail. We must not let it fail.

"The Plan presents a great challenge to all of us. I look to you, the people of Pakistan, to accept this challenge. In particular, I look for honest, energetic and devoted service in this great cause from those who are occupying or will occupy positions of responsibility in the administration of the country or in institutions of Basic Democracies now being brought into being to lend political content as well as corporate purpose to our national life. A nation is judged not by its hopes, but by its deeds. God will reward you if, by your labour, you prove yourself worthy of His reward. For it is said in the Quran:

Man shall have nothing but

what he strives for; and his
striving shall soon be seen;
then he shall be rewarded for
it with the fullest reward."

The massage of the late President is an excellent expose of the objectives and strategy of planning in Pakistan in the beginning of the sixties.

Methodology of Planning an Plan Implementation

In the preceding section the criteria employed in determining the development programme have been discussed and so have matters relating to the nature of plan targets, coordination of targets, aggregate and sectoral targets, formulation of an investment programme, and revision of plan targets. All these matters were discussed as part of the discussion on the strategy of planning, but they are also relevant when discussing the methodology of planning.

The first step in planning is to give a positive and precise indication of the objectives of planning. The choice of objectives should reflect the state of the economy and the political, economic and social philosophy of the powers that be.

The next step is to fix the size of the planned investment and to allocate it amongst various sectors. The capital-output ratio technique is most utilised to ascertain the capital requirements for attaining a given increase in income. The capital-output ratio varies from about 2.5 to 3.5 or so depending on the capital intensity of the development programme. The requirements of investment have to be matched against the availability of savings (domestic savings in the private sector - domestic savings in the governmental sector - net foreign investment -- net foreign assistance); efforts have to be made to ensure the availability of both local and foreign currency resources required for the developmental effort. The rate of capital formation is critical for the development process.

According to Rostow an increase in investment from 5 to 10% of national income enables a country to reach the "take-off" stage. In the under-developed countries the low savings—income ratio is the basic factor limiting growth. The capital-output ratio and the savings-income ratio particularly the incremental savings - income ratio (the proportion of savings from additional income) make it possible to calculate the amount of investment. the amount of domestic savings, and the requirements of external assistance.

A distinction should be drawn between physical and financial planning. A physical plan is expressed in terms of input requirements and output expectations of physical factors, goods and services in the various sectors of the economy. The term physical planning is also sometimes used to denote a particular method of implementing certain objectives in a plan: this expression is a legacy of war-time planning in the United Kingdom.

In most under-developed countries preoccupation with the concepts of savings, investment and output plead to the presentation of development plans in terms of financial aggregates. Financial plans are necessary to ensure administrative efficiency and financial discipline but they cannot really replace a physical plan. Professor Gunnar Myrdal has come out with a scathing criticism of the practice of financial planning:

> "It has been argued that the setting of targets for specific categories of final output from specific investments and their coordination in order to minimize the risk of bottlenecks and excess capacity, although desirable in principle, is often not feasible because adequate statistical information is lacking. If this is so, it is pertinent to ask how it is then possible to draw up a workable financial investment plan.
>
> "One difference between financial and physical planning is simply that the latter cannot help revealing the weak factual information on which the plan is based, while the former often serves the function of concealing it. This is not to deny that every government must plan investments and their coordination as best it can, even though it cannot draw on adequate information and must rely largely on guesses. The point is that these guesses and estimates must, in the final analysis, relate to concrete physical items and their changes. The fiscal-financial plan can be at best only a superstructure, built on the basis of a physical plan...

"One reason why this type of planning, and the ever-present spectre of inflation, are so detrimental to the physical coordination of public investments is the concentration of the planners' and the government's interest in the scarcity of financial resources. It distracts attention from the scarcity of agents of production such as skilled labour, managers, technicians, and administrators, and from under-utilization of completed projects as a result of deficient demand. These bottlenecks are much more serious in the under-developed countries of South Asia than in industrially and commercially advanced countries. Consequently, financial magnitudes are much less capable of reflecting the physical reality behind them, and any deficiency in accurate and detailed physical planning is much more damaging."

Planning to be effective should be based on physical planning and financial planning should accurately reflect physical planning.

The inter-relationship of the various planned sectors has been discussed in the preceding section. In order to evolve a sound and workable plan, it is essential to ensure a proper balance between the several major portions of the plan to avoid either surpluses or shortages. A crosswise balance will establish an equilibrium between the aggregate output targets and the aggregate resources available. For the soundness and efficiency of the plan it is essential that there should be close correspondence between the available resources and the aggregate production schedules. Power, labour and transport are the most important resources which require balancing with the targets of production. In order to ensure that the targets fixed are mutually consistent, innumerable balances will have to be established between production targets and the production resources. Physical targets must be balanced against financial resources that can be mobilised. A 'backward balance' is also required between the final products and the numerous components which enter into their production. Inter-industry balances are a *sine qua non* of sound and efficient planning.

The planned economies are characterised by the existence of a strong central planning authority (such as the Gosplan in the USSR, and the Pakistan Planning Commission), an enunciation of the objectives of planning, a statement of the strategy and methodology of planning which includes the fixation of physical and financial targets, the imposition of a variety of controls, a systematic and coordinated development effort in relation to all echelons of governmental agencies as also the private sector, and finally the growth of the public sector.

The implementation of development plans is a much more difficult and frustrating experience as compared to the time and effort spent in preparing the plan. What Lewis wrote of the Indians is more or less applicable to all under-developed countries. "The Indians are better talkers than doers, better planners than executors—too often the execution is half-hearted, inept, or bogged down in cross purposes."

Plans cannot readily be converted into achievements and this is one greatest failing. The execution of a plan involves a very large group of administrators, engineers, financial analysts, and those who do the spade-work. The various components of a plan should be treated as an action programme and implemented with zeal, honesty and professional competence. Given the social and economic overheads and a package of development-oriented economic policies, there should not be any serious problem of implementation in the private sector.

It is the public sector, which is being called upon to bear an ever-growing burden of the developmental efforts, that needs to be streamlined and injected with a greater sense of responsibility and much needed efficiency. The slogans of accountability and management seem to lose their efficiency by the time they reach the public sector. There is a concentration of the powers of decision-making and authority is just not delegated to the working levels. Time-consuming procedures and dilatory tactics seriously damage the impact of the project. Sometimes half-baked and ill-conceived projects find a place in the investment portfolio with the result that all estimates of cost-benefit ratios are brought to naught. It must be readily admitted that changes in the cost-benefit ratio occasioned by rise in wages, priced and duties, as also genuine unforeseen shortages are hazards which are not peculiar to the public sector.

While a development plan calls for increased State activities, it is usually agreed that traditional government organizations are unable to do more than a minor part of the job. Most under-developed countries have found it suitable to shift operational responsibility under the development plan to autonomous or semi-autonomous public enterprises. Public enterprises in-

under-developed countries can play a pioneering role. They can introduce new avenues of production and make changes in the existing technical and organizational setup. They can demonstrate to the private sector that risk-taking in new productive fields can pay as well as any traditional business pursuit. Similarly, the government, by direct participation along with private capital, can mobilize further resources for development.

Methods of financing public enterprises, which vary from country to country and from one type of enterprise to another, include government budgetary appropriations, sale of stocks and bonds to the public, foreign borrowing, internal accumulation, etc. The current thinking is that public sector agencies should operate at a price level which enables them to make sufficient profits for financing their future expansion.

The policy board makes the necessary decisions and the management implements them. To ensure success, the policy board of a public enterprise should be a well-chosen team of able and experienced civil servants, industrialists and other outstanding citizens. It is always valuable to let technical bodies or consulting groups advise the policy board on technical matters. Successful management of industry demands a high degree of flexibility resourcefulness and experience in the appraisal of market situations and cost conditions, and rapid adaptation to actual and prospective changes. It also demands continuing search for and grasp of new market possibilities and opportunities for improvement in technique, organization and industrial relations which will add to efficiency and reduce cost. These elements of management are essential if industrial ventures are to become and remain competitive and if the necessity for prolonged protection at the expense of the economy as a whole is to be avoided. In short, even where considerable independence and flexibility is accorded government industrial ventures through various degrees of autonomous organization, there is still the problem of finding management with the necessary skill and experience.

From the point of view of economic analysis, the price policy of public enterprises differs in many respects from that of private enterprises. Any price charged by public enterprises for the sale of goods or services is a shift of purchasing power from the private to the public sector, and any price paid by public enterprises for the purchase of goods and services represents a shift of purchasing power from the public to the private sector. Profit received resembles excise duties and loss incurred is a form of subsidy to the consumer or user. A public enterprise can afford to sustain losses over a considerable period, while private enterprises cannot do so without continued government subsidy. The problem of monopoly and competition also affects the price policy of public enterprises. However, there is no reason why a public enterprise may not follow the same rules concerning price fixing as are used in any other enterprise, and indeed in many cases this may be highly desirable. The absence of profit or the occurrence of losses has adverse effects on government revenue (the impact being considerable when profits constitute a sizeable part of total State revenue) and limits the expansion of the enterprise through lower accumulation.

Since a major problem in economic development is to raise the national rate of saving, it may well be more important in many instances that price charged by public enterprises should be set so as to increase public savings than that they should be set low merely in order to demonstrate that in public (as contrasted with private) enterprises profits are not necessary. There may be circumstances where subsidies to public enterprises are needed. Sometimes a public enterprise may be created solely to render a service of a welfare nature, or a product or service may be deliberately sold below cost to stimulate expansion in other fields of activity. In all such cases public enterprises may deviate from the generally accepted price policy followed by private enterprises.

Governments are frequently criticised either for neglect of, or excessive control over, public enterprises. A certain amount of control over public enterprises is essential. Broadly speaking, government controls over public enterprises are of two kinds: (a) financial controls, and (b) administrative controls. The problem of financial controls could be made much simpler provided public enterprises were financially self-sustaining. A suitable approach appears to be for the government to formulate a pattern of selective control over vital decisions but not details. Within such a framework it will be in a position to channel the necessary resources to strategic enterprises at critical times. Such a pattern may include controls over new capital authorization, borrowing in excess of a specified sum, payments of dividends and fixing of reserves.

Administrative controls of public enterprises in under-developed countries should be no more than adequate to assure necessary co-ordination between public enterprises and the government. As far as departmental organizations are concerned, the problem of control is mostly settled. The minister concerned, either directly or through his representative, controls all the important administrative decisions. In the case of a mixed-ownership corporation, the degree of administrative control depends on ownership; if the government owns the majority share, naturally it will be in a position to appoint the majority members of the governing board and thus control the management.

Efficient implementation of a sound plan would have a profound impact on the economic, social and political strength of the nation. The plan should be prepared with vision and circumspection. It should be realistic. It should mobilise public support for the greater glory of the country and attempt to make the lives of the people more satisfying and more fulfilling. The proof the pudding lies in the eating. High sounding platitudes never solve national problems; at best they can blind people for brief interludes. The public sector implementing agencies must execute their obligations as a public trust; those who do not act as trustees in the literal sense of the word must be made to face the music.

Socialist Planning

In order to understand Marxism or Scientific Socialism one must rely on "Das Capital" written by Karl Marx in 1867. Marxism is based on two fundamental concepts:

i) **Dialectical materialism:** Every event of history is explainable on economic grounds; all wars, internal commotions and political movements have their origin in economic factors. There is an appropriate political organisation for every economic stage corresponding to the relevant economic stage. A Capitalist Economy will thus evolve a system which perpetuates and supports property rights. Marx goes on to explain how capitalism will generate conditions which will replace it by socialism. The capitalists will grow in wealth as time passes, but will become fewer and fewer, the bigger whales swallowing the smaller ones. Monopolies will be created, production will expand necessitating a scramble for markets abroad. This will lead to an imperialist war, and one war will be followed by another more terrible than the preceding one till capitalism perishes in the conflict, and the dictatorship of the proletariat is established.

ii) **Theory of Surplus Value:** Karl Marx maintains that the manufacturer gets for his commodity more than he has spent on labour and other costs. The excess of market value over the costs is the surplus value. This surplus is the creation of labour. It is created because labour is paid much less than its due. He characterises the appropriation of the surplus value by the capitalist as robbery and exploitation. A commodity, according to him, is simply 'crystallised labour' or 'concealed labour.' Surplus value is basic for profits and accumulation. The aim of the capitalist is to increase surplus value to the maximum. At first, when the supply of labour is large, the wage rate remains constant at the subsistence level but sooner or later, the demand for labour exceeds the available supply and wages rise, reducing thereby surplus value. With loss of surplus value, there is a 'crisis' as the capitalist has no incentive to invest. The capitalist also tries to create again a surplus of labour by using labour saving machinery but this also is a temporary solution as the too frequent resort to this device will lower the rate of profit and thereby reduce the capitalist's incentive to accumulate. Thus capitalism is doomed to fail and give place to socialism.

The Communist Manifesto of 1845 lays greater stress on the theory of the methods for realising Communist ends rather than on the kind of society they would create. The Communist Manifesto stresses the formation of a network of Communist organisations all over the country and the world, capturing key posts in other organisations and carrying on their work silently, adding to the number of adherents. When the party has become sufficiently strong, it will throw out the capitalists, capture government machinery and lay the foundation of the proletariat State. The State machinery will be utilised to crush all opposition and to expropriate the capitalists.

The aim will be to create a classless society where there is no distinction of high or low, rich or poor. When the objective is achieved, the State will become unnecessary. It will 'wither away.'

In practice the Communists do abolish all forms of private property, not merely in the instruments of production but also in the consumer goods. Those consumer goods which are intimately connected with the person of the consumer, e.g., food and clothing, are transferred to individuals and families and those which are not so connected, like houses, are owned by society and only their services are transferred to the consumers. People are expected to work according to their capacity and to get according to their need. Everybody is to be assigned a definite job. He cannot choose his own occupation. Nobody will have a house of his own or a bank account. Everyone will be a government employee; he will not be paid cash but he will get his meals in the State kitchens and live in Government quarters. He will be provided commodities and services for consumption not of his choice but what the State chooses to give according to production at the time. The bringing up of the children, their education and fixing up, will be a State concern. The pricing system will disappear. The State will control production, assign jobs, and fix remuneration and prices of goods and services without the profit motive. In a Communist society, industrial and commercial crises are avoided. Unemployment, the distinction between rich and poor and strife between labour and capital will all disappear. The idea is obviously Utopian. The Russians in the early stages of their Revolution tried to put these ideas into practice and abolished money and exchange. But the system failed. The money economy had to be restored and the price mechanism revived. Different wages were paid to encourage and reward efficiency.

Another variant of Communism is Collectivism or State Socialism. The collectivists or the State socialists believe in parliamentary democracy and nationalisation of the means of production. The desire to capture the political machinery, strengthen it and use it for the realisation of the socialists' aims and ideals. The powerful State engine is to be utilised for the production of wealth and its equitable distribution. The State is the be all and ended all, and as soon as the socialists have captured it, they have reached their goal. The State will do for them all that they want. Private enterprise will be ended. All production will be carried on by salaried State officials and profits will go to the State coffers and utilised for the uplift of the masses. The only difference between capitalism and State Socialism is that under the latter, the means of production are owned and managed by the State instead of the private entrepreneur otherwise the exchange mechanism of capitalism, e.g., pricing, marketing, etc., is retained. Among the chief tenets of the socialist creed may be mentioned (a) State ownership of productive resources, (b) redistribution of national income, (c) economic planning, and (d) peaceful and democratic evolution of the economic system.

Then there are the Fabians, the more prominent of whom are Bernard Shaw, Sidney and Beatrice Webb, and my old teacher at the London School of Economics, Harold Laski. These socialists are men of literature. Bernard Shaw was one of them. They sincerely believe that socialism is a question of conviction. If the people can only be convinced of the virtues of socialism, no power on earth can prevent its coming about. Through literary propaganda—novels, dramas, short stories—they expose the evils of capitalism and bring out the merits and necessity of socialism. They hope that in the course of time, the world will come to believe in socialism, and socialism will then come to prevail.

Despite all the divergent views it is possible to visualise a programme to which the majority of socialists would pledge their support. All socialists believe in the abolition of private ownership in the instruments of production. Land, factories, railways, mines and every other means of production must be nationalised. Their ownership and control are to be vested in the State so that the State may provide work for everybody. There is to be no private enterprise. Production is to be initiated and conducted by the State which will pay wages and other costs and keep profits to itself. Interest and rent as payment respectively to the capitalists and the landlords will disappear, for the State will be the capitalist, landlord and entrepreneur. All socialists, except the Communists, are prepared to allow private property in the form of a house, furniture, household equipment and other consumer goods.

Living on unearned income is to be discouraged. Remuneration for work is to be according to the nature of the work and is to be equal. Earned income will vary according to ability. A limited operation of the law of demand and supply in this connection is envisaged.

There is thus no basis for the belief that under socialism all would be equal economically. No economic equality is guaranteed. What can be assured is equality of opportunity for all irrespective of rank. The State is to help a person choose an occupation and make him fit for it.

The State is in charge of both production and distribution. The allocation of the productive resources of the community will be determined according to the direction of a central authority. The profits of production instead of going into the pockets of a few private individuals, go to the coffers of the State. They are to be spent in ameliorating the lot of the common man by providing him, and his family, with adequate medical aid, full and free education and ample means of recreation and entertainment. Freedom from want is guaranteed and fear, born of insecurity, is to be banned. Everybody is to select his occupation and is free to spend his income in any manner he likes. There is to be no regimentation. This, in short, is the socialist plan.

For a long time, the definition of socialism as given by the Webbs was accepted by a majority of the socialists: "A socialised industry is one in which the national instruments of production are owned by public authority or voluntary association and operated not with a view to profiting by sale to other people, but for the direct service of those whom the authority or association represents."

This definition does not correspond to the present notion of socialism, because it does not imply any idea of planning. The definition by Dickenson is more up-to-date. According to him, socialism is an economic organisation of society in which the material means of production are owned by the whole community and operated by organs representative of, and responsible to, the community according to a general plan, all members of the community being entitled to benefits from the results of such socialised planned production on the basis of equal rights.

Lucks and Weldon Hort brings out the implications of socialism more clearly, "Socialism refers to that movement which aims at vesting in society as a whole, rather than in individuals, ownership, and management of all nature-made and man-made producers' goods used in large-scale production, to the end that an increased national income may be more equally distributed without materially destroying the individual's economic motivation of his freedom of occupational and consumption choices."

Amongst the Asian countries, India, Ceylon, Burma and Indonesia (in Indonesia under President Suharto) socialistic thought is being subtly diluted . Socialist thinking has for some two and a half decades held the field both in government and political activity. In Pakistan Prime Minister Bhutto's Party is wedded to "Islamic Socialim." It used to be said that there are as many views as there are economists, but it would probably be more truthful to say that there are as many variants of Socialism as there are socialists.

In India where the Indian Planning Commission has interpreted "socialistic pattern of life" to mean "a society in which there is social cohesion without classes", the main ingredients of Democratic Socialism are:

i) democratically functioning government machinery in the political as well as economic sphere;
ii) equality of opportunity and removal of disabilities arising from social (caste) and economic backwardness;
iii) removal of inequalities of income and wealth to the extent possible by doing away with monopolies and other forms of uneven industrial and land ownership;
iv) a high level of economic development;
v) public ownership of certain key industries and financial and commercial industries but avoiding extensive state capitalism which results in concentration of political and economic power in the same authorities, for that would be Marxian Socialism and not Democratic Socialism;
vi) a comprehensive scheme of social security organisation of economic life conforming to the principles of justice and guaranteeing a minimum standard of living to all;

vii) a planned central direction as well as decentralisation of political and economic power compatible with the security of the state; and

viii) an increasing association of labour with management of industry as co-sharers in profits.

In short, India seems to believe in a socialist order based on economic freedom, that is, freedom of enterprise, freedom of contract and the free right of the individual to own and use property. The Indians crave for a happy blend of democracy and socialism.

In Pakistan, the experience between December, 1971 - mid-1976 would indicate that Prime Minister Bhutto's practical implications of Islamic Socialism comprise:

i) an elected and democratic parliamentary form of government under a written constitution which provides for observing the tenets of Islam as contained in the Quran and Sunnah, democracy. rule of law, fundamental rights. provincial autonomy, and the establishment of an egalitarian society. covering the removal of individual and regional disparities in income and wealth in as far as this is practicable;

ii) accelerated social and economic development with greater stress on the social sector (education, health and housing):

iii) the nationalisation of heavy industry, shipping, banking and insurance, and basic agro-based industry (rice milling. wheat milling and cotton ginning),

iv) a reduction in ceilings for landholdings and appropriation of surplus holdings without paying any compensation;

v) a massive redistribution of incomes favouring the rural classes, and, within the urban community, the lower and lower middle classes;

vi) the codification and enforcement of labour rights without enforcing the corresponding obligations on labour;

vii) an almost confiscatory rate of income and wealth taxation beyond a fairly low upper level of income (about $10,000 per annum);

viii) stress on the public sector as a vehicle for industrial development in particular and economic and social development in general;

ix) leaving the foreign investment sector completely untouched;

x) nationalising major segments of foreign trade, such as exports of cotton and rice, and imports of iron and steel, chemicals, metals, wheat, sugar and vegetable oil;

xi) replacing the discipline of a Five-Year Plan by Annual Development Plans to provide more "flexible and pragmatic planning"; and

xii) indicating the possibility of greater nationalisation and state control over the economic sectors at a future date.

In Burma the then Prime Minister, U Nu, while discussing the Burmese road to socialism in 1958, cast doubts on the theory of evolution and cited the latest discovery in physics in support of the Buddhist as opposed to the Marxist view of the composition of the universe, but he did not elaborate on the relationship between these incursions into the absolute and Burma's journey toward a socialist state.

In Ceylon the programme of the Ceylonese Communist Party distinguishes between capitalists on the basis of their origin, and includes the demand for nationalisation without compensation of all banks, states and factories belonging to foreigners and their Ceylonese collaborators. In Ceylon the socialist doctrine had its basic roots in economic nationalism.

Ruslan Abdulgani, with whom the author worked as his Deputy at the Bandung Conference, traced the roots of imperialism to capitalism, and he therefore advocated that independence was not enough and socialism was "an essential ingredient of nationalism since we believe that socialism offers the people the quickest escape from the poverties of their national heritage."

President Soekarno expounded the philosophy of NASAKOM; a queer combination of Nationalism, Religion, Socialism and Communism. Whatever critics may say of President Soekarno's excursions into the realm of political philosophy, the fact remains that President Soekarno welded over 3,000 islands, speaking over a hundred languages, into one solid nation, which is more than most leaders have done. As a genuine friend of Pakistan and Pakistanis he was almost without a peer.

The socialist thinking has been criticised on several scores:—

i) Socialism attacks the very basis of society and seems to destroy the established value system. This criticism takes on an added dimension when applied to family life and social values.

ii) The bureaucracy is not suited to running a business set-up. The incentives are lacking and there is a tendency to play safe. Initiative, enterprise and resourcefulness are generally lacking.

iii) Private savings cannot supplement savings in the public sector for financing investment programmes.

iv) Incentives for work, saving and investment are seriously damaged.

v) The concentration of economic power in the state is destructive of human freedom.

vi) The socialist system by no means does away with economic and social classes.

vii) Although socialism removes unemployment and under-employment and dilutes the adverse effects of fluctuations in international economic activity on the national economy, the adverse effects relating to removal of consumer sovereignty, loss of fundamental rights, inefficiency in the production and distribution process, and the absence of incentives for savings/investment and work far outweigh the advantages relating to stabilising the economy and providing full employment. It is further agreed that these two advantages can also be secured under a system of DILUTED CAPITALISM OR REFORMED CAPITALISM. Give the system any name but ensure consumer sovereignty, efficiency positive incentives and human freedom.

Of all the under-developed countries China is the only country which has successfully practised the Communist philosophy and translated it into a highly efficient economic and social programme.

An economic crisis is a thing unknown in new China. China's economy continues to develop in a vigorous, down-to-earth way. During the last decade, 1964 to 1974, there has been an enormous growth of the Chinese economy. The output value of agricultural production went up 51 per cent and that of industrial production 190 per cent. In addition, 1,100 large and medium-sized capital construction projects were completed. In China, the means of production and the products are under socialist public ownership. Factories, mines, railways, shipping, shops and banks are in general State-owned enterprises under the ownership of the entire people. In agriculture, with the exception of a small number of State farms, production and small rural industrial enterprises are generally run by the people's communes which are under the collective ownership of the labouring masses. The public ownership, compatible with the social character of production, enables the productive forces to develop rapidly, and at a speed unknown in the old society.

China develops its economy to satisfy the ever-growing needs of national construction and the people's livelihood. On the basis of expanded production, the people's livelihood has improved step by step. In the 26 years since the founding of new China, commodity prices have long remained stable, the wages of the industrial workers and administrative staff have repeatedly risen, the income of the rural people's commune members has increased year after year, and number of workers in the homes of the people has grown thanks to economic development. As a result, the people's purchasing power has steadily mounted. The profits of State-owned industrial and commercial enterprises in China are restricted by rates set by the State.

The profits made by the State-owned enterprises in China and the taxes levied on them are turned over to the State as revenue. The bulk of these is used as a fund for expanding industrial and agricultural production. That is to say, what is derived from the people is used in their interest.

Many of the goods produced in China, especially foodstuffs staple and non-staple, clothing and other daily necessities and machinery, tools, seeds, etc., supplied to rural people's communes, are sold at production cost or at meagre profits. Some essential products are even sold below production cost. Factories producing them get tax reduction, tax exemption or subsidies from the State.

The socialist planned economy prevailing in China is based on public ownership and aims to develop the economy and ensure a steady flow of supplies. This makes it possible to

carry out unified planning of production and distribution of products in accordance with the needs of national construction and the people's livelihood. Peking's population of several million enjoys a constant supply of vegetables all the year round. They are produced by the people's communes on the outskirts which grow and deliver crops according to the plan made by the Municipal Bureau of Commerce in consultation with them. The vegetable growing teams of the 33 communes concerned undertake every year to plant a huge acreage with more than a hundred varieties of vegetables, sufficient to supply every resident with a pound of fresh vegetables each day. The sowing of those vegetables popular among the Peking people, such as cucumbers and tomatoes, goes on through the four seasons, in green houses when the weather is cold. The market is thus ensured a regular supply of these crops all the year round. A vegetable production plan is worked out every year to avoid any contradiction between production and demand and maintain a balance between the two.

The development of the Chinese national economy is based on the general principle: "Take agriculture as the foundation and industry as the leading factor." Plans are worked out in the order of priorities of agriculture, light industry and heavy industry. What and how much to produce is planned, ranging from grain, cotton and non-staple foods to various kinds of light industrial goods as well as iron and steel, fuel and machinery. In brief, all the products needed by society are included in the State's Five-Year Plans and annual plans for the development of the national economy. The Chinese people are striving to fulfil the country's Fourth Five-Year Plan (1971—1975).

New China does not seek to be a Superpower. Adhering to the principle of independence and self-reliance, it has developed its national economy by relying on its own efforts—accumulating its construction funds, exploiting its own natural resources and training qualified personnel to meet the growing needs of construction. Industrial and Agricultural products are turned out mainly for the growing domestic market, both urban and rural, to cater to a population of nearly 800 million. At the same time new China puts foreign trade under State control on the principle of equality, mutual benefit and helping to meet each other's needs.

By following this line, China is free from economic crises and its socialist construction is advancing by leaps and bounds.

The great Chinese people have given Asia a new pride and added new dimensions to Asia's world stature. The Chinese people were eminently successful because they had an untold capacity for self-discipline and self-sacrifice. They were also blessed with a brilliant and honest leadership which practised what it preached and which had been moulded into a fine cast by the hardships which they cheerfully shared on the Long March with Chairman Mao Tse-tung.

Amongst under-developed countries Iran has made magnificent strides through practising a system of Reformed Capitalism. Iran's success has been due to the wise and visionary leadership of His Imperial Majesty Mohammad Reza Shah Pahlavi, Shahinshah Aryamehr, the availability of resources for capital formation, and sound planning and implementation.

The success of the Iranian economy in 1974 can be best gauged by a 46.5% increase in per capita income. Per capita income, which stood at about 150 dollars in 1950, tripled in value in the following 20 years to 469 dollars in 1970. It almost tripled again in the next four years to 1,336 dollars in 1974 and it is expected to exceed 2,000 dollars before the end of the current Five-Year Development Plan in 1977-78 and top 6,000 dollars before the end of the century.

It should be emphasized that this remarkable feat has been accomplished despite a high population growth (2.9% per year) and an inflation rate which has been low compared with the rate of inflation in other parts of the world.

The size of Iranian gross national product in constant prices doubled from 1970—1974 and is expected to approximately increase twofold by 1977-78.

Another indicator of Iran's rapid economic development is the growing size of the development budget. Central planning for economic development in Iran began in 1948 when a Seven-Year investment budget totalling 274.5 million dollars was approved, of which only 68.4 million dollars was actually invested. In contrast, the Fifth Plan, which originally called for a total budget of 36.5 billion dollars, was increased to 68.6 billion before implementation began. All indications are that actual investment during this plan will exceed the planned investment.

Most of the money needed for such enormous expenditures for general development of the Iranian economy comes from oil and oil-related sources. Iran's oil revenue in 1974 was 19.2 billion dollars—up from 4.4 billion in 1973. Much of this increase comes from higher oil prices negotiated in 1972-73; however, the effects of the new oil bill which made Iran the full owner-operator of its industry are also significant.

Despite all the progress in the rest of the world the United States continues to be the world's richest society, barring some oil Sheikhdoms. Sweden enjoys seven-eighths of U.S. real per capita income, Switzerland four-fifths, France and Germany three-fourths, Japan two-thirds, Britain three-fifths, Chile one-fourth, India one-fourteenth and Kenya one-seventeenth. Between 1950—70 the rate of growth of West Germany, Italy and Japan has been twice as high as that of the U.S.A., that of France two-thirds more, and even of the U.K. 10% more. In the U.K.. with the best rate of growth, investment stood at 22% of G.D.P. as against 19% in U.S.A. The growth rates in the Communist countries of Eastern Europe are at about the same level as those of the mixed economies of Western Europe.

A word about the role of prices—for in a Socialist economy they are not used for their primary function of regulating the economy and ensuring the sovereignty of the consumer. Albert O. Hirschman indicated a major difference of opinion in regard to economic policies in the under-developed countries when he observed that "The economic profession comes very close to having its own two-party system: one party extols, the other criticizes the price system." The problem of price has two aspects:

i) prices arrived at by assuming equilibrium between demand and supply provide objective criteria for planning; and
ii) price policies which are designed to change them in a desired way can be instrumental in planning.

As Gunnar Myrdal has rightly pointed out: "Markets do exist in certain sections of the South Asian economy, though they are often isolated from other markets and internally compartmentalized and imperfect. In these sections, the entrepreneurs act with the motive of minimizing costs and maximising net returns, although other considerations may carry more weight than is customary in the developed Western countries. Prices thus are significant in determining the behaviour of the individual company, and hence the development of the national economy."

The confusion with regard to Socialist thinking has been further compounded by the demagogues of various political parties in the under-developed countries who desperately try to cash in on the popular, albeit elusive, slogans of the equality of man and the elimination of vested interests through which alone can be secured the emancipation of humanity and the eradication of hunger, disease, squalor, ignorance and idleness.

"VERBAL JUGGLERY"

Professor Myrdal has described the socialistic trend in Asia in very apt terms:

"Although adherence to socialism is widespread, the term has never been rigorously defined. Its meaning varies greatly, not only among but within countries, confusing the public debate. In part, this confusion stems from the association of socialism with Marxism, itself an indeterminate concept; but participants in the public debate often seem to believe that their audience prefers the doctrine of socialism mixed with an indigenous strain. What then emerges is an ideological compromise, be it "Islamic Socialism" as in Pakistan, "socialism a la Indonesia", Buddhist Socialism in Burma, or "Sarvodhaya Socialism", by Gandhians in India. But it is regularly asserted that there is no compromise at all, since the ideals of socialism are immanent in the indigenous philosophy. The truth, of course, is not so simple, and the intellectual contortions engaged in to explain and justify the indigenous form of socialism are likely to be no more than verbal jugglery."

The concept of socialism, furthermore, has varied over time. Each country has undergone a variety of political experiences, and in each, change has been the rule. But whatever

the course of events, the concept of socialism has continually served to express a vague radical commitment. The vagueness is symbolized by the variety of expressions chosen to designate the socialist doctrine that is adhered to. Even India. where otherwise the ideological debate is on a higher intellectual level than in the other South Asian countries. has used a plethora of terms to describe the sort of society aimed at, with much shifting of meaning: a "socialist society". a "socialist (or socialistic) pattern of society". a "cooperative commonwealth". a "socialist cooperative commonwealth". sometimes with the amplification that it should be established. "by all peaceful and legitimate means." Although a change in terminology is often preceded by a debate on the degree of economic radication that should be sought. party leaders usually maintain that the resolution introducing the new expression says nothing not already implied in expressions previously used. This practice of revising the terminology is criticised as causing confusion, not only by many conservatives who do not want much socialism. but also by radicals who find the lack of clarity especially unfortunate when they argue for a more determined and principled planning policy in order to realize the ideal of socialism as they understand it. Both camps are just as apt to hold that this vagueness constitutes an advantage, since it prevents the formation of too doctrinaire and dogmatic an outlook. As Jawaharlal Nehru once explained: "Broadly, of course, we know we want a society in which everybody has a rising standard of living. where power is not concentrated and so on and so forth. But the moment you go much further than that—in theory you may--you are trying to imprison your system for the future. The lack of conceptual clarity is still greater in the other South Asian countries that claim to adhere to socialism."

The Pitfalls of Planning

As one who was closely associated with the planning and development process in Pakistan in particular and in under-developed countries in general. it is almost irresistible not to highlight the main pitfalls of planning. It is most desirable to have hindsight: complete foresight is given to only prophets in the human race. But one should learn from experience and attempt to pass on that knowledge to others. It is with this attitude that an attempt is made to highlight the main pitfalls of planning as follows:—

i) *Stress on a development-oriented administration as against a law and order administration:* In the fifties it was fashionable for all quarters to stress that the administration should have a development bias and not a law and order bias. The continuance of law and order was taken for granted. Development institutions were created and officials in all echelons of government were directed to concentrate their efforts on development. In practice they did so to the neglect of their basic duty of enforcing law and order. To this was added the strain of defiance of law inherited as part and parcel of the independence movement. The "satyagraha" and "non-violent" movement in India could not be contained in the past 1947 era.

K. M. Pannikar in his book "In Defence of Liberalism" has stated the problem in its real perspective: "More especially, picketing, mass Satyagraha, hunger-strike and other similar weapons in the Gandhian armoury, though justifiable as peaceful methods of revolt against an oppressive alien regime which deprived people of their freedom. could hardly be claimed as upholding liberal ideas or strengthening the democratic character of the national movement. Our experience of these methods after independence, when for getting every minor local complaint settled public men have advocated Satyagraha or gone on 'fasts unto death' should amply prove that however much we might admire the Gandhian technique. we could not consider it as a welcome addition to our political tradition."

In "Afro-Asian Attitudes", M. R. Masani has indicated the rebound effects of such attitudes: "While, on the one hand, there is the cult of personality and submission to leaders without proper discussion and without proper criticism, on the other hand, we find an amount of indiscipline in our public life that is absolutely appalling. This has many manifestations. There is

student indiscipline. It has become a chronic disease in our country. We also have become recently aware of trade union indiscipline. Illegal strikes are normal in our country and nothing very much happens to those who lead them, and so there are more illegal strikes encouraged by the immunity the trade union leaders who ignore the law, enjoy."

Masani's anxieties about the state of affairs in India in the sixties are applicable with full force to Pakistan in the first half of the seventies with the addition that it is creeping into the villages as also the governmental sector. The maintenance of law and order and the firm establishment of the rule of law continue to be the absolutely necessary requisite for any worthwhile effort at planning and development. The planner and political administrator can only ignore them to the detriment of progress and stability.

ii) *Emphasis on economic models rather than on sound policy package and project appraisal and plan implementation.* Planners in under-developed countries spend far too much time on preparing econometric models which are hardly understandable by the policy-makers and in removing plan inconsistencies. Far too much attention is given to elusive concepts like the marginal rate of savings. All this leaves little time for a conscientious and detailed scrutiny of development projects, with the result that project appraisal is relegated to a secondary position. The selection of projects is left to the relatively lower echelons of government and this without doubt adversely affects the quality of development. As if this were not bad enough, sufficient attention is not given to producing a sound package of economic policies (macro and micro) for ensuring the success of the development plan. For instance. an attempt is not made to solve the contradiction between a high rate of marginal savings and a levelling of income distribution. How can the rate of marginal savings be high unless the rich are in a position to save more? Again import policy sometimes runs in the opposite direction to industrial policy. While industrial capacity is developed, import policy is liberalised to compete with the products of domestic industry. Even monetary and fiscal policies sometimes take different direction. While encouraging accelerated development. restrictions are placed on extension of bank credit and rates of interest are increased. Fiscal policy also seeks to mop up all possible savings leaving precious little for investment. While monetary and fiscal policies are conservative. the overall development philosophy is expansionary. The goal of the agricultural policy is to increase food production and significantly raise the output of cash crops for export and domestic consumption. The provision of inputs is sought to be assured but the critical matter of ensuring their supply at the farm gates is given insufficient attention. These and several other contradictions and lacuna in economic policies needed to be sorted out by the planners. They should spend more time in evolving sound and coordinated economic policies and detailed appraisal of development projects rather than in flaunting econometric models, which. in any case, do not have all that much significance in under-developed countries.

Planners do not also pay enough attention to translating plans into programmes of deeds and achievements. The implementation of a plan imposes severe strains as compared to its preparation. Plans are prepared with a great amount of care so as to make them comprehensive, realistic, specific and as consistent as possible, but their implementation is often partial, slow and inefficient. Preparation of a plan is a means to an end and its half-baked implementation could well jeopardise the existing economy as well as the progress of it. It is. therefore. equally necessary to ensure proper implementation of the plan.

iii) *Regimentation of the economy:* Planners in under-developed countries love to stress the public sector and direct controls on investment, production and trade rather than stress the private sector and use the market mechanism as far as possible. The former course is easier and less painstaking although the efficiency of the latter course is difficult to deny. Under-developed countries are characterised by a baffling array of administrative personnel of the right calibre. Pakistan's planning and development in the sixties was a magnificent success largely because of liberal economic policies and encouragement to the private sector. The adoption of liberal economic policies to use

the market mechanism in promoting economic development may not fully meet the requirements of the now fashionable thinking with regard to social justice. It may perhaps be well advisable to partially sacrifice the immediate dictates of social justice for a much bigger slice of the cake for one and all in the not too distant future. Regimentation of the economy proliferates corruption at all levels and there is a real danger of corruption becoming a way of life. Besides economic regimentation leads to an uneconomic distribution of resources and the production process becomes increasingly inefficient.

iv) *Under-utilisation of productive capacity:* In the zeal and enthusiasm for promoting investment and securing capital formation, insufficient attention is given to the fuller utilization of existing capacity. Industries are established in sectors where the existing capacity is grossly under-utilised. New lands are brought under the plough after huge investments while existing tracts of cultivated land are exploited only marginally. Trucks and buses which could be overhauled at relatively little expense are dumped in the junk-yard and precious foreign exchange is spent on new and expensive vehicles. There are innumerable school and hospital facilities in the rural areas with completed buildings but without any service facilities. The schools are there but no teachers and no students. The hospitals are there without doctors, nurses or patients. Yet the school and hospital building programme continues unabated. Capital expenditure is incurred but the recurring expenditure to utilise these services is generally not available. This is indeed a most sorry state of affairs and an extremely poor use of scarce resources. The planners and development administrators must, in the first place, provide the resources and policy package necessary for a full and efficient utilisation of existing capacities before embarking on the provision of new capacities. The aim of planning should be to maximise production and make it more efficient with as little investment as possible.

v) *Over-estimation of financial resources:* Sometimes planners have a tendency to over-estimate the availability of local currency and foreign exchange resources for development over a given period of time. This can create a lot of chaos, including delays in completing projects and thereby raising their cost. The estimation of resources required for development should, apart from their capital cost, take into account the recurring liability both in local currency and in foreign exchange. The import requirements of existing and planned projects should be carefully worked out in order ensure availability of foreign exchange resources of the required magnitude. Under no circumstances should additional production facilities be planned unless there is reasonable assurance that resources would be available from exports and foreign aid to meet the recurring import requirements.

Instances abound in under-developed countries where huge investments have been made and they are lying idle because the country concerned cannot find the resources to finance the import of their inputs of raw material and spares. Where a country is heavily dependent on foreign aid, care should be taken to ensure that its foreign policy is also development-oriented in the sense that it maintains a warm relationship with the donor countries and donor agencies. Foreign policy should be based on principle but the principle of enlightened national interest should be the cardinal principle of foreign policy.

vi) *Lack of emphasis on the human aspect of planning:* Planners in under-developed countries are inclined to ignore the human aspects of planning and there is a tendency to deal with planning and development as if for some faceless beings bereft of human sentiment, emotion and dignity. Planning in under-developed countries, particularly in the more populous ones, deals with the lives of millions and millions of individual human beings and not with some collection of automats. Education should, therefore, be stressed in order to revitalise the dormant energies of the untold millions and make them more productive elements of society. There has been relatively little investment in human resources. The extension of elementary education to most of the population and the imparting of technical and vocational skills should transform a surplus labour

force into a valuable productive asset. There should also be a synthesis between the policies of growth and social justice; social justice should basically imply an adequate reward for work and nobody should feel that the system has been unfair or unjust to him.

The quest for mass involvement in "democratic planning" has been unsuccessful even in India where it was stressed as early as in 1951:

> "Democratic planning will not succeed unless the sanction of an awakened public opinion operates powerfully and the force of public action. in pursuit of constructive ends. continually grows. A democracy working for social ends has to base itself on the willing assent of the people and not the coercive power of the State....If the direction of advance is in line with the expectations of the bulk of the people and the rate of progress is not too slow, the essential prerequisite for winning public cooperation will have been secured."

Maurice Zinkin in his "Development for Free Asia" has described the dilemma facing some developing countries. He writes:

> "His difficulty (the democratic politician's) is that in most of Asia it is precisely the wishes and the prejudices of the electorate which stand in the way of development. They like their society static, or their handicrafts protected, or their children uneducated. or their pigs uneaten. or their cows kept alive. or their reproduction uncontrolled. The list of the prejudices, beliefs and attitudes which stand in the way of development in one Asian country or another (and, indeed. in Western countries. too) is an endless one."

It is difficult for planning to await the support of the masses. This will come in due course with the spread of education and as the benefits of planning percolate to the masses. But meanwhile planning which is imposed from the top must take into account the basic human element prevailing in all regions of the country. Planning must lay emphasis on human beings as such.

Pakistan's Planning Experience

Amongst the under-developed countries, Pakistan and India have the longest and probably the most fruitful planning experience dating back 25 years. In Pakistan, there have been really eminent people devoting their best to the Planning Commission. The late Zahid Hussain was the first to head the Planning Commission and he was ably supported by the Chief Economist, M.L. Qureshi. who has put in a life-time devoted to the cause of planning in Pakistan. But the man who really brought prestige and power to the Planning Commission was the late Said Hasan. During his time the Planning Commission blossomed into a powerful and effective instrument of progress. Others of note who followed him were Deputy Chairman, M.M. Ahmed, a strong and honest officer whose only failing was his inability to get along with East Pakistan and who unfortunately became a controversial figure for his role in Yahya Khan's negotiations with Sheikh Mujibur Rehman in March 1971; Ambassador Qamarul Islam who directed the Planning Commission at a critical time when Dr. Mobasshir Hasan was enjoying his hey-day: and Secretary Vaseem Jafrey. an able and dedicated officer who is making valiant efforts to keep the planning flag flying. The Planning Commission was also very well served by some American advisers—David Bell and Ed Mason in the fifties and Dr. Gilbert in the sixties. The Planning Commission also produced a group of officers. who by virtue of their ability and experience. distinguished themselves in after-day life—Secretary Aftab Ahmed Khan, Secretary N.N.A. Kureshi. Deputy Director General FAO Sartaj Aziz. World Bank Policy Planning Director Dr. Mahbubul Haq. Economic Adviser Dr. Mueen Baqai, Dr. Mueen Qureshi, Vice President of the International Finance Corporation. FAO Resident Representative Shafi Niaz, the late C.A. Majid. RCD Director Fasihuddin. International Trade Chief Javed Azfar, and his predecessor Dr. Khalid Ikram and Dr. Nafeesa Sadek presently in the U.N. on the Family Planning side.

The sectoral allocations in the First, Second, Third and Fourth Plans were as under:

TABLE 24.1

Sectoral Allocation in First, Second, Third and Fourth Five-Year Plans

(Million Rupees)

Sector	First Plan (1955—60) Amount %	Second Plan (1960—65) Amount %	Third Plan (1965—70) Amount %	Fourth Plan (1970—75) Amount %
Industry, fuels and minerals	28.24	26.60	25.29	21.32
Transport and communications	16.57	17.60	20.40	15.20
Water and power	20.00	19.08	16.72	23.28
Agriculture	11.00	14.86	15.60	13.46
Physical planning and housing..	13.79	14.82	12.45	10.39
Education and training	4.25	4.58	5.14	7.54
Works programme	—	—	3.50	3.26
Health	2.15	1.82	1.80	3.60
Family Planning	—	—	0.52	0.92
Social Welfare, Man-power and Employment	0.99	0.58	0.45	0.98
Other sectors	2.77	—	—	—
Total:	100.00	100.00	101.92	100.00
Less expected shortfall	—	—	1.92	—
Net total plan size	100.00	100.00	100.00	100.00

Source: Planning Commission.

The distribution between the private and public sectors is given is Table 24.2.

TABLE 24.2

Sectoral allocation in First, Second, Third and Fourth Five-Year Plans (Public and Private)

(Million Rupees)

Plan	Private	Public	Total
First (1955—60)..	3,300	7,500	10,800
Second (1960—65)	8,380	14,620	23,000
Third (1965—70)	22,000	30,000	52,000
Fourth (1970—75)..	26,000	49,000	75,000

Source: Planning Commission.

The Perspective Plan (1965—85) provided the growth pattern as in Table 24.3.

TABLE 24.3

Growth Pattern in the Perspective Plan (1964—85 *Prices*)

(Million Rupees)

Sector	1965	1970	1985	Annual compound rate of growth 1965—85%
Agriculture	21,055	26,870	62,500	5.6
Manufacturing	5,195	8,365	36,500	10.2
(i) Consumer goods	3,235	4,515	13,000	7.2
(ii) Intermediate products	1,620	3,300	21,200	13.7
(iiii) Investment goods	340	550	2,300	10.0
Other sectors	17,115	24,165	75,300	7.7
Total: ..	43,365	59,400	1,74,300	7.2

Source: Planning Commission.

The Perspective Plan was expected to bring the following structural changes as indicated in Table 24.4.

TABLE 24.4

Structural changes in the perspective plan percentages (1964—85 *Prices*)

Sector	1950	1965	1970	1985
Output	100	100	100	100
i) Agriculture	60	49	45	36
ii) Manufacturing	6	12	14	21
iii) Other sectors	34	39	41	43
Employment	100	100	100	100
i) Agriculture	75	65	62	49
ii) Manufacturing	25	11	12	14
iii) Others sectors		24	26	37

Source: Planning Commission.

20-YEAR PERSPECTIVE PLAN

The Perspective Plan was a long-term plan prepared for 20 years. This period was necessarily arbitrary and there was no profound reason for its determination but it seems to be, on the one hand, long enough to permit meangful structural changes in the economy and, on the other hand, not so long as to be without direct interest to the present working generation. The goals of the Perspective Plan were:

i) a quadrupling of the GNP from about Rs. 43.365 million in 1964-65 to about 1,74,300 million in 1984-85;
ii) provision of full employment to the entire labour force:
iii) parity in per capita income, between East and West Pakistan;
iv) Universal literacy; and
v) elimination of dependence on foreign assistance.

The main instrument for achieving the objective of the Perspective Plan was, of course. a fast rate of increase in the Gross National Product. Most of the thinking of the model for growth rate is still tentative and many of the magnitudes will be consolidated only after further studies have been carried out. Under this Plan, per capita income, per average family was proposed to be increased to about Rs. 425 per month by 1985 against the present figure of Rs. 170. This massive improvement will still leave the living standard far below the level of the developed countries. It will, however, eliminate poverty and ensured that at least the basic minimum necessities of life are available to everyone. In order to realise this objective.

long-term planning must proceed not only in financial terms but on a physical plan, so that adequate supplies of food, clothing, decent housing and some of the amenities of life are made available over the next 20 years. In addition to a physical target in the fields of food, clothing and housing a target will be set for education and medical facilities. transport and recreation, the demand for which will be rising more rapidly than the total consumer demand. Pakistan is going ahead in working out the details of such targets.

The Perspective Plan envisaged an average growth rate of 7.2 per cent in the GNP over the next two decades. The growth rate is expected to increase from the current level of about 5.5 per cent to 6.5 per cent in the Third plan and 7.5 per cent by the Sixth Plan.

Gross investment will be increased from about 18.5 per cent of the GNP in 1965 to 23.0 per cent in 1985. Domestic savings are projected to increase from about 10 per cent of GNP in 1965 to nearly 22 per cent in 1985. requiring almost one-third of the additional income to be saved on a per capita basis. The target of eliminating foreign assistance also implies a substantial increase in exports, at an annual rate of about 8 per cent, and considerable import substitution in capital goods and intermediate products whose domestic production is projected to increase at rates of 10.0 and 13.7 per cent per annum respectively. If these targets are achieved. external assistance will decline from about 8 per cent of the GNP from 1965 to about one per cent in 1985 and Pakistan will cease to be a net capital importing country.

THE COLOMBO PLAN

The Colombo Plan for Cooperative Economic Development in South and South-East Asia which now embraces 24 member nations was originally launched for a six-year period 1951—57 and it marked the beginning of an era of planned development in the under-developed countries. The background in which the Colombo Plan was launched makes interesting reading and it speaks volumes for the vision of those who launched this noble and visionary dream:

> "The people of Asia have long felt the pressure of poverty and hunger. While the realisation of self-government could not of itself relieves this situation, it has made possible a new approach to the problem of raising living standards through the vigorous development of national resources. Among the peoples of Asia hopes and aspirations have been raised by the plans of their Governments to secure a fuller life for them.
>
> "The region with which this Report is concerned comprises the countries of India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo, Sarawak, Brunei, Burma, Thailand, the Associate States of Cambodia, Laos and Viet-Nam, and Indonesia. Its 570 million people make up one-quarter of the population of the world. Despite the abundance of human resources, the considerable natural wealth of the area has not in the past been developed rapidly enough to ease the increasing pressure of population upon the land. There is, therefore, great poverty among millions and an unceasing struggle for existence. In India at present the people's diet consists almost entirely of cereals, and in the rationed urban areas they consume only about 12 ounces of foodgrains a day. In Pakistan, with its wide range of temperature, 9 yards of cotton cloth have to suffice for one man during the year. The low level of consumption illustrated by these meagre quantities is clearly inadequate by any standard. Moreover the level of food consumption in the whole subcontinent of India is appreciably below what it was ten years ago. The same general picture, with local variations, is presented by every country in South and South-East Asia. In these circumstances the urgent need of these countries is to develop their economies in order to increase food production and consumption and raise the real income of their peoples.
>
> "During the past five years political events have moved fast in South and South-East Asia. Changes have taken place on a scale hardly precedented in world history. Independent Governments have come into being, supported by democratic institutions and imbued with enthusiasm for the future welfare of their countries. The horizon of thought and action in the economic as well as the political field has been greatly extended, and Governments are grappling with the problem of promoting the economic improvement which is indispensable

to social stability, and necessary to strengthen their free institutions. It is of the greatest importance that the countries of South and South-East Asia should succeed in this undertaking. The political stability of the area, and indeed of the world, depends upon it, and nothing could do more to strengthen the cause of freedom.

"The countries of the region play an important part in the world economy. The area is a major source of the food and raw materials consumed throughout the industrialised world. Before the war it provided almost all the world's exports of jute and rubber, more than three-quarters of the tea, almost two-thirds of the tin and one-third of the oils and fats. These key products have for generations flowed into the great trade routes of the world. Rubber, tin and jute products earn dollars in the Western Hemisphere. Tea and oils are shipped to Europe. In return, the industrial products of the West — textiles, machinery, iron and steel—flow back into the area."

In 1947, at the outset of its existence as a separate country, Pakistan was confronted with innumerable problems, principal among them being the rehabilitation of nearly seven million refugees. At the same time large numbers of professional men, lawyers, doctors and traders left the country. Everywhere business was almost shut down, banking operations suspended and commodity markets closed. It was necessary not merely to establish a new administration, but to rearrange the entire economic and social fabric of the nation. In addition, Pakistan was still suffering from the after-effects of the War. In East Pakistan dislocation and distress followed the allied armies' "scorched earth" and "denial" policies which aggravated the effects of the great famine of 1943. The railways were over-strained and dilapidated and their equipment depleted. Chittagong Port, after years of neglect, had been subjected to intense strain during the War and was greately in need of repair.

When Pakistan came into being, the country found itself with over 80 per cent of the world's production of jute, but with no jute manufacturing capacity. Pakistan was producing annually 200,000 tons of cotton, mainly of fine quality, but its textile industry was negligible. There were no tanners, no woollen mills and very little other industry. It was thus inevitable that the economy of Pakistan should depend mianly on the export of its agricultural products.

In the first three years of Independence the country was largely prooccupied with problems of an emergency character. The Government was obliged to spend large sums on the relief and rehabilitation of refugees and as such could not concentrate on a coordinated effort for economic development. As a matter of fact the first plan dates back to 1947—51 when attempts were made at economic coordination and planning in the immediate post-Independence period. In order to avoid dissipation of the limited resources of the country on less important projects and to concentrate on urgent objectives the Government of Pakistan drew up a Six-Year Plan of Development which embodied 67 projects of the highest priority. This started along with the inception of the Colombo Plan. The programme was essentially of basic development intended to prepare the country for future advancement. It did not, therefore, aim at spectacular results in terms of living standards of the people, although a progress of 30% would have been made in this direction if the plan was carried out. The plan was inspired not only by the desire to improve the standard of living but also by the conviction that the country was endowed with an industrious and virile people inhabiting the land whose natural resources called for a vigorous programme of development. The programme was based on the assumption that Pakistan must continue to be essentially an agricultural country but that agriculture must be carried on in the most efficient way. The public expenditure envisaged in the programme was Rs. 2.6 billion while that in the private sector was Rs. 0.4 billion. The allocation to agriculture was almost one-third of the total allocation of Rs. 3 billion, while transport, power industry received 18 to 20% and social services received the balance.

Within the Six-Year Development Programme a Two-Year Priority Programme was drawn up in order to carry out as soon as possible such of the projects in the fields of power, transport and communications etc. which would ensure satisfaction of the basic needs of the country and enable future plans to be laid on more solid foundations. Since the Colombo Plan was not conceived as a rigid set of development projects it lent itself for adaptation and expansion with the availability of financial and material resources. The Two-year Priority Programme envisaged an expenditure of Rs. 505 million.

The Government of Pakistan set up new planning machinery in January 1951 to implement the Six-Year Development Programme. The Planning Advisory Board was abolished and the Development Board was replaced by a Planning Commission with 20 members. Membership included the Minister of Economic Affairs as Chairman, the Secretary-General of the Cabinet as Vice-Chairman, the permanent Secretaries of almost all the central ministries, the Director General of the Railways, and, after its creation, the head of the Pakistan Industrial Development Corporation, as well as nominees of the Provincial Governments. Besides the Planning Commssion, an Economic Council was created. It was presided over by the Prime Minister and included the Ministers of Food and Agriculture, Communications, Education, Economic Affairs, and Finance and Industries. A planning Wing in the Ministry of Economic Affairs acted as Secretariat for both the Planning Commission and the Economic Council.

The Economic Council was responsible for implementing the Six-Year Development Programme, for approving projects under the Programme and for reporting periodically on the Programme's implementation. The functions of the Planning Commission combined those formerly held by the Planning Board and the Planning Advisory Board. In practice, however, its main task during the period of the Six-Year Programme was to examine all non-recurring development projects estimated to cost Rs. 500,000 or more and recurring projects costing Rs. 100,000 or more and to recommend action thereon to the Economic Council.

The Planning Commission got off to a slow start. Rules of procedure for the consideration of development projects were worked out only after two years. The constant power struggle between the Chairman of the Planning Board and the Economic Affairs Secretary was responsible for the Planning Commission getting off to a slow start; both were dedicated men but the clash of personality left its scars on the day-to-day planning administration.

The decline in Pakistan's export prices and serious food shortages which followed the cease-fire in Korea made it unfeasible to carry out the Six-Year and Two-Year Programmes as originally envisaged. Annual public outlays for development more than doubled from Rs. 339 million in 1950-51 to Rs. 746 million in 1954-55. Increased development outlays, financed mainly by foreign aid and loans and by internal borrowing from the banking system, as well as high defence expenditures, produced inflationary pressures which strained the availability of resources. Actual outlays for development fell behind budgeted amounts, not so much because of lack of funds, but because of a shortage of administrators, managers, technicians, foremen and other skilled and experienced man-power in Govenment and industry. Better progress might have been possible on the more important projects if the scarce managerial, technical and skilled labour, as well as material and financial resources, had not been dispersed over many large and small projects. Although the Planning Commission and the Ministry of Finance tried to eliminate obviously low-priority projects already in progress, the pressure for continuing outlays for projects already started was often too strong to overcome.

Nevertheless, much was accomplished. Industrial assets increased by three and a half times between 1950 and 1955. Although the industrial base was extremely narrow in 1950, substantial absolute increases in capacity occurred in existing and new industries. Both private investment and government outlays through the Pakistan Industrial Development Corporation (PIDC), contributed to the growth, Power, transport, ports and communications, and social and municipal service facilities, were greatly expanded, although not nearly enough to meet demand. But partly because of official emphasis on industrial development, agricultural was neglected and little progress was made in this sector.

THE FIRST PLAN (1955—60)

The governmental resolution which provided for the establishment of the Planning Board had expressed the hope that a draft five-year plan for the period beginning April 1, 1954, would be ready by that date. But in April, 1954, only the Chairman of the Planning Board, a few administrative staff members and three or four senior professional staff members had been engaged. Because of the lack of staff, the starting date of the proposed plan period was postponed by a year to July, 1, 1955. In giving the Planning Board a mandate to prepare five-year Plan, the Government had set no specific objectives of official development policy. The

resolution establishing the Board had stated that:

"The economic and social objectives of Government's policy are well-known. They are to develop the resources of the country as rapidly as possible so as to promote the welfare of the people, provide adequate living standards, and social services, secure social justice and equality of opportunity and aim at the widest and most equitable distribution of income and property."

But this statement was too general to guide the Board in setting priorities and allocating resources. The Planning Board produced five objectives for the proposed plan. Heavy emphasis was to be laid on the achievement of the greatest possible increases in national income and the standard of living, but increased health, education, housing and social welfare services "justified primarily on grounds other than increasing the national income," were to be another objective. The three other objectives were to improve the balance of payments by increasing exports and import substitution; to increase opportunities for useful employment; and to increase rapidly the rate of development in East Pakistan and other less-developed areas of the country.

While the first four objectives posed largely methodological problems in allocating resources, it was the fifth objective which implicity recognized the need for increasing East Pakistan's rate of growth until the average standards of living in the two wings were approximately equal posed greater difficulties for the Planning Board.

The plan was formulated through a series of successive approximations by which available resources were compared with the claims upon them.

i) Public financial and real resources were first estimated on the basis of existing official policies and programmes, as well as on the assumption that they would be increased by a reasonable rise in the rate of taxation and by other means. Foreign exchange receipts were estimated by means of projections of export earnings and import payments, using available information on both past experience and future prospects. Total private investment resources were determined from estimates of potential private savings after allowing for resources to be mobilized by the public sector. To obtain this information, the Board conducted surveys, including the first systematic estimate of private savings ever made in Pakistan, and held discussions with business and industry leaders.

ii) A preliminary division of the total resources under government control was then made among the major sectors of the economy.

iii) For the private sector, estimates were made of resource requirements and expected returns based on past investment, production and forecasts of demand.

For the public sector, an attempt was made to select the most productive projects. Most of three projects were already under way. Others were proposals invited by the Planning Board. Some of the projects were fully engineered and well conceived, but because of the general inadequacy or absence of planning and programming staffs in the Provinces and in the central ministries and agencies, many projects were not supported by a proper appraisal of their technical feasibility, real costs and benefits or the administrative and technical arrangements required for their implementation and subsequent operation. Some projects were little more than unproved indeas. There were also many important fields where no projects were submitted. In the absence of basic information, the Board often found it difficult to make sensible decisions on the usefulness and priority of projects received.

The Planning Board made some poignant expressions of opinion on public administration, a section which was contributed by a senior civilian, M. Hadi Hussain. It read:—

"The inadequacies of Pakistan's administrative machinery will operate as the most serious single impediment to the maximum economical use of the country's financial and material resources....(and)....the pace of implementation of economic and social programmes is likely to be governed....more by the capabilities of the nation's administrative and technical organization....(than by)....the magnitude of resources....This over-centralization is an ineffective and in fact a spurious form of co-ordination. It exhibits itself in time-consuming, energy-wasting, and patience-exhausting checks and counter-checks, references and

cross-references, conferences and consultations, often at the wrong levels and about unimportant matters....Co-ordination in the true sense of unified administrative leadership at vital points is generally lacking. Apart from pervasive financial controls, which often have co-ordinative implications of a negative character, and the intrinsic responsibility of the Cabinet, such agencies as exist for general co-ordination do not perform this function in a comprehensive manner."

The First Five-Year plan (1955—60) was a comprehensive and co-ordinated attempt to harness human effort and physical resources to the maximum extent possible in order to raise the living standard of the people and to open up opportunities for a richer and more varied life and was designed to prepare the ground for rapid growth by building up the infrastructure and productive potential of the economy. It aimed at increasing national income by 15 per cent with an expenditure of Rs. 10,800 million; Rs. 7,500 million in the public sector and Rs. 3,300 million in the private sector over a period of five years.

The Plan did not receive formal approval by the Government until 1957 for political considerations. The Prime Minister was afraid to set off political agitation in East Pakistan on the basis of a supposed unfair plan allocation to that wing. Full support of the Government was given to the Plan only in 1958 when the Ayub Regine came into power. Despite the late start, the country registered important economic advances, and the Plan targets were reached in a number of sectors, notably in industry and power development. Various organizational and institutional improvements were effected. In particular, there was unmistakable progress in the evolution of planning machinery within the Government and in public recognition of the importance of Planning and development.

The financial resources available for development purpose in the public sector during the Plan period fell short of expectations. Excess of non-development expenditure over revenue occurred in the first three years of the Plan. Foreign exchange earnings from exports fell short of Plan projections because both the volume and prices of the country's chief exports of primary commodities declined sharply and import prices increased. Cutbacks were particularly severe in imports of development goods and allocations to the private sector; serious shortages of imported raw materials and consumer goods were also experienced. Arrivals of projects and commodity aid were also less than expected.

A disappointing feature of the implementation of the Plan was the lack of progress in the key sector of agriculture. The result was that extensive imports of foodgrains became necessary; and the country spent about Rs. 700 million of its foreign exchange earnings on imported foodgrains and on the freight paid on the foodgrains received as aid, compared with Rs. 410 million provided in the Plan.

Industrial production showed good growth as compared with the Plan targets, notably in cotton textiles and sugar. The performance of industry was especially impressive because it was achieved with considerably less new investment than had been anticipated. In the fuels and minerals sector, increases in output were low except in the case of natural gas, which showed substantial growth. The increase in installed electric power was close to expectations. The water development programme fell considerably behind schedule, and the acreage reclaimed from waterlogging and salinity was below the Plan objectives. Investment in railway, transport, roads, ports, civil aviation, and expansion of telegraphs, telephone, and postal facilities, was up to or above the Plan targets in most cases. Substantial increase in traffic accompanied these additions and improvements. Performance was, however, poor in the field of social development. Housing received a strong stimulus only in the last two years of the Plan; and medical hospital and social service facilities showed only modest improvement. Education made some perceptible progress though less than was expected. Primary school enrolment increased by about 10 per cent, a little ahead of population growth; secondary school enrolment rose by 25 per cent; and the outturn of agricultural, engineering and medical personnel increased by 30 to 150 per cent.

In financial terms the Plan target was fulfilled to the extent of about 90 per cent. The total development expenditure during the Plan period was estimated at Rs. 9,715 million; Rs. 6,315 million in the public sector and Rs. 3,400 million in the private sector. The Plan target in the private sector was surpassed. Against the Plan expectation of 15 per cent increase in national income, the actual achievement was of the order of 11 per cent. Because of the increase in

population, however, the increase in per capita income was only 3 per cent, compared with the increase of 7 per cent envisaged in the Plan.

In general terms the conclusion to be drawn from the experience of the First Plan is that while progress had been a good deal less than was expected, there had been a significant improvement in the climate for economic growth, making accelerated development possible during the Second Plan period. Conditions were ripe for taking a decisive step forward in the advance towards a self-reliant and self-sustaining economy.

THE SECOND PLAN (1960—65)

The principal objectives of the Second Five-Year Plan (1960—65) were:

(i) To increase national income by 20 per cent. After allowing for the increase in population this would mean a 10 per cent increase in the per capita income.
(ii) To increase the production of foodgrains by over 20 per cent. This would make the country self-sufficient in food by the end of the Plan period.
(iii) To increase industrial production by about 50 per cent.
(iv) To improve the balance of payments position by about Rs. 450 million. At the same time, the level of imports of industrial raw materials and spare parts of machinery would be substantially increased.
(v) To achieve substantial progress towards the target of 30 lakh (30,00,000) new job opportunities.
(vi) To accelerate the economic growth of relatively less developed areas in East and West Pakistan.
(vii) To reorientate and expand educational, health and social welfare facilities.
(viii) To increase housing facilities, particularly for lower income groups.

The First Five-Year Plan comprised two sectors: public and private. In the Second Five-Year Plan, a third sector, namely, the semi-public sector, was introduced. This sector included public corporations, such as the Pakistan Industrial Development Corporation, the Pakistan International Airlines, the Karachi Port Trust, the Karachi Development Authority, the Inland Water Transport Authority of East Pakistan and the West Pakistan Road Transport Board. These corporations relied partly on the funds provided by the Government and partly on their own resources as well as the resources provided by private investment and loans. They also differed from the public sector agencies in that they enjoyed a much greater degree of administrative autonomy. In a strict sense, therefore, they belonged neither to the public nor to the private sector. A distinction was made between the expenditure to be directly incurred by the Government, which is the public sector proper, and the expenditure to be incurred by public corporations but to be financed by the Government. Estimated expenditure on development programmes by local bodies was included in the public sector in the Second Plan.

Out of a total of Rs. 1,900 crore, Rs. 11,500 million was to be financed by the Government. This was over 90 per cent larger than the government-financed programme in the First Plan. Comparable estimates of actual expenditure by the Central and Provincial Governments are given below:

TABLE 24.5

(Million Rupees)

	First Plan expenditure	Second Plan allocations	Percentage increase
East Pakistan Government	980	3860	293
West Pakistan Government	1890	3550	88
Central Government	3080	4090	33
Total ..	5950	11500	93

It will be observed that the proposed programme for execution by the East Pakistan Government was almost four times as large as the actual expenditure under the First Plan; and the programme for execution by the West Pakistan Government was about twice as large.

The resources required for development expenditure under the Plan were to be raised as follows:

	(Million Rupees)
Domestic savings	11,000
Foreign aid, loans and investments	8,000
Total ..	19,000

The average rate of savings was about 6 per cent of gross national product during the First Plan. It was estimated that the potential rate of saving in the Second Plan would be about 7 per cent. Domestic savings amounting to Rs. 11,000 million were to mobilised if the rate of saving was to increase from 7 per cent in 1960-61 to 8.6 per cent in 1964-65.

The foreign aid, loans and investments required for the Plan were intended partly to meet the foreign exchange costs of the development schemes in the Plan, which were estimated at Rs. 6500 million, and partly to serve as balance of payments support of Rs. 1500 million for increased supplies of raw materials and spare parts needed for effective utilization of industrial capacity.

The resources for the programme to be financed by the Government were to be raised as follows:

	(Million Rupees)
Surplus on revenue account	800
Capital receipts	1500
Resources of local bodies	200
Counterpart funds on account of U.S. defence support and agricultural commodities aid	2500
Custom duty on commodity aid imports	50
Project aid	4000
Additional taxation	1000
Deficit financing	1000
Total ..	11,500

The Plan placed considerable reliance on the institutions of Basic Democracies for bringing the mass of the people into effective participation in the economic and social effort. It also stressed the need for the concept of planning being built in depth into the administrative structure, since the larger part of the plan was in the public sector.

While the Second Plan was being prepared, staff and organisational inadequacies kept provincial planning bodies from making appreciable contributions to the Plan. From the end of 1960 in East Pakistan and from the beginning of 1961 in West Pakistan, augmented staff and the upgrading provincial planning organizations increased the capacity and status of provincial planning. Provincial planning organizations played increasingly effective roles in initiating and coordinating both planning and implementation. Nevertheless, since the Central Government controls most of the tax revenues, monetary, credit, fiscal and other financial policies, and the distribution of foreign exchange and proceeds from foreign loans and grants, it remained the dominant force determining the size and composition of investment outlays in the provinces.

In order to ensure that the private sector obtained a reasonable share of the available foreign exchange resources under the Second Plan, the Ministry of Industry functioned as the private sector's representative on the Foreign Exchange Control Committee.

The Second Five-Year Plan aimed at mobilising the maximum internal effort towards an upward trend in per capita production and income for achieving self-sustaining growth. The

Second Plan was based on the experience of the First Plan and projected a larger increase in the national income (24 per cent as compared to 15 per cent in the First Plan) and in development outlay (Rs. 23,000 million as compared to Rs. 10,800 million in the First Plan). The strengthening of the planning and development machinery, reform of the entire administrative set-up of the Government, expansion of the educational system and its orientation to development needs, creation of research and training institutions, simplification of procedures for financial sanctions and projects execution and a number of other corrective measures were among the broad objectives emphasised in the Second Plan.

The actual results surpassed all expectations. The increase in national income was 29 per cent compared to the target of 24 per cent. There was a healthy increase in almost all the sectors of the economy. Food production increased by 27 per cent, large scale industrial production by 85 per cent, the investment level by 17 per cent, domestic savings by 140 per cent, exports by 45 per cent and the consumption level by 32 per cent. It was matter of great satisfaction that Pakistan financed 64 per cent of the Plan from its own resources, 14 per cent more than was originally anticipated.

One of the significant achievements of the Second Plan was the progress in agriculture. The agriculture income was estimated to have increased at the rate of 3½ per cent per annum during 1960—65 compared to only one per cent per annum during the previous ten years. The transition from the stagnation of the fifties to the rapid growth of the sixties was made possible not by favourable weather but by a concrete set of policies. During this period, foodgrain rationing was abandoned, export duties on commercial crops were slashed, support prices of foodgrains established, land reforms introduced and all physical inputs, like fertilizer, seeds and water, heavily subsidised. During these five years, the distribution of fertilizer (in terms of plant nutrients) increased from 31,000 tons to 194,000 tons, and water availability particularly in West Pakistan, increased substantially both as a result of the programme of water development by WAPDA and the rapid expansion of private tubewells. This increase in agricultural production was the real basis of the high savings, investment and export experienced during the Second Plan period.

The liberalisation of the economic system from administrative controls was a major policy decision. At a time, when most developing economies were imposing greater restrictions on their private sectors in the mistaken notion that this represented the essence of planned development Pakistan relaxed most of the controls on imports, investment and production. At a time when the public sector was encroaching upon the private sector in most of the developing countries. the private sector in Pakistan exceeded the Second Plan target by 37 per cent while there was a shortfall of 5 per cent in the public sector expenditure. At a time when certain countries were moving towards a doctrinaire commitment to socialism, Pakistan maintained its pragmatic attitude towards planned development. And this yielded results as is evident from the Second Plan's performance.

Almost all sectors of the economy contributed to the growth witnessed under the Second Plan period. In fact, about two-thirds of it was contributed by the non-agricultural sectors whose weight became increasingly important in the GNP. The manufacturing sector increased as a percentage of the GNP from 9.2 in 1956—60 to 11.0 in 1964-65. The activity in the construction sector depended to a large extent on the tempo of investment. The investment rate increased from 10.5 per cent of GNP in 1959-60 to 18.8 in 1964-65. Thus investment was an ever-rising proportion of fast-increasing national income.

The development effort in the country was sustained to a larger extent by domestic resources than was actually contemplated in the Plan. Domestic savings exceeded plan expectations by about Rs. 4,780 million. They increased from 6.9 per cent of GNP is 1960-61 to 10.2 per cent in 1964-65.

Much of the additional domestic effort would have been wasted if it was not backed up by a vigorous export drive to earn foreign exchange. The country spent about Rs. 5,157 million of its own foreign exchange on development imports whereas the Plan did not expect any surplus after meeting non-development imports. Thus the country's dependence on foreign assistance was significantly lower than forecast in the Plan. Whereas the plan expected foreign assistance of Rs. 11,550 million for an expenditure of Rs. 23,000 million, the actual utilization of foreign

assistance did not exceed Rs. 9,300 million in a total development expenditure of Rs. 25,530 million. Foreign assistance thus financed only 36 per cent of the Plan expenditure instead of the expected 50 per cent.

The Second Plan was very successful in its basic development strategy. No significant departures were made from the sectoral allocations indicated in the plan and it succeeded in achieving its basic objectives. The economy was prepared for attaining high growth rates in investment and production. A firm basis had been laid for the second phase of economic development which began with the launching of the Third Plan on the 1st July, 1965.

The then Finance Minister, M. Shoaib, commented on the performance of the Second Plan with a measure of justified pride:

"The foundation for what Pakistan can rightly claim has been a brilliant economic performance was laid during the period of 20 months between the Revolution of October 27th, 1958, and the inauguration of the Second Plan on July 1st, 1960. During that time order was created out of the economic and financial chaos which had been prevalent during previous regimes, and a period of stability began when the efforts of the nation, its people and its administrations could be directed towards the creation of a sound economic basis from which future advances could be made at an even greater pace.

"During the seven years that have elapsed since that day in 1958 the country has experienced, on different occasions, such setbacks as temporary difficulties in food supplies, the depletion of foreign exchange and delays in the imports of capital goods, components and spare parts, but gradually, and I think surely, solutions have been or are being found to these problems and one can say with certainty, for the facts are there for all to see, the overall progress of the nation has been maintained. We can say, with pride, that a solid economic base in the shape of infrastructure and basic consumer goods industries has been created, and it is now possible to set our target, for the next five years far higher than could have been visualised five years ago."

THE THIRD PLAN (1965—70)

The major objectives set for the Third Plan (1965—70) were:-

(i) To increase G.N.P. by a minimum of 37% over the Plan period.

(ii) To reduce the existing level of disparity in per capita incomes between East and West Pakistan by increaseing the regional product of East Pakistan by 40% and of West Pakistan by 30%.

(iii) To create at least 5.5 million new jobs to absorb the entire increase in the labour force.

(iv) To make substantial progress towards achievng certain specific social objectives, such as diminishing inequalities in the distribution of incomes, wealth and economic power.

(v) To arrest the menacing growth of population by taking decisive steps towards population control.

The Third plan was thus the first to enunciate an explicit set of national goals, and the first to take account of the existing level of disparity in income per head between East and West Pakistan. Again, the Third Plan was more consciously concerned with policies of economic justice and distribution and took the first definite step towards population control.

There was a degree of conflict between the objectives of growth and those of distribution in incomes and of employment as outlined above. A reconciliation of these conflicting goals is always a delicate and difficult task. In the framing of the Plan policies were spelled out which were not merely aimed towards increasing income levels, but also at providing a better distribution of the increased wealth made available through growth, at spreading economic power rather than allowing it to concentrate in fewer and fewer hands, and at providing fuller employment. In accordance with the constitutional obligation of ultimate removal of disparities in regional incomes, a higher target of growth was set for the less developed Eastern region.

If these constraints of a social nature had not been imposed, the Gross National Product would probably have grown over the five years of the Third Plan by more than the 37%

which had been set as the target. The planners exercised care in seeking a balance between growth and other social considerations.

In his Foreward to the Outline of the Third Five-Year Plan President Ayub Khan stated:

"There are various ways of assessing national progress. The usual measure is the increase in national income or income per head. By this measure, Pakistan has already increased its national income by about 66 per cent and will achieve a further increase of 300 per cent in the next 20 years. The advance is in geometrical progression. But figures are meaningless, unless they are related to the welfare of the common man. The real index of economic development is not cold statistics, but the visible effects on the pattern of the daily life of the people. And it is here that we have to go far beyond the usual economic measurements and consider the cultural, social and religious enrichment of life, besides material progress. And it is for this reasson that economic planning has to be conceived as a part, and only a part of the broader social and economic framework which is rooted in our cultural and religious traditions."

A home for every family and a reasonable income, free primary education for every child of school-going age, adequate medical facilities and social security measures for the entire population were the broad social objectives stipulated in the Perspective Plan (1965—85). Out of this, the Third Plan itself (1965—70) expected to build some 15 million houses, provide schools for 70 per cent of the children and medical facilities for 55 per cent of the population.

The basic strategy of the Third Plan was to accelerate further the growth rate in GNP, from 5.4 per cent to 6.5 per cent per annum, and 5.5 million additional jobs were to be created to absorb not only the increase in labour force tbut to reduce the backlog of unemployment by about one-sixth. The total Plan size was Rs. 52 billion (roughly $ 11 billion at that time) which was twice the size of the Second Plan. This expenditure included the works programme (which was kept outside the framework of the Second Plan) but excluded expenditure on the Indus Basin works which were covered by a special Treaty. Of the total Plan allocations, 13 per cent were earmarked for agriculture, 29 per cent industry, 33 per cent for economic overheads and 26 per cent for social services and other sectors. Higher allocations were reserved for East Pakistan to accelerate its growth rate to 7% per annum as compared to 6% per annum for West Pakistan and thus to reduce the income disparity between East and West Pakistan.

The broad strategy of the Third Plan was as follows:—

i) *Agricultural Growth:* The Third Plan aimed at a decisive increase in the agricultural growth rate from 3.5 per cent per annum in the Second Plan to 5 per cent in the Third Plan. To achieve this, the Plan devoted over 40 per cent of the total expenditure to agricultural development directly or indirectly. Water availability was to be increased by about 35 per cent in West Pakistan through a massive programme of irrigation and reclamation. Fertilizer distribution was expected to go up three times as the Government continued to subsidise it to the extent of 50 per cent. Considerable expansion was envisaged to private tubewells in West Pakistan and low-lift-pump irrigation in East Pakistan. These policies were to be supported by extension of credit facilities, improvement in marketing arrangements and the establishment of support prices for certain crops.

ii) *Industrial Growth:* The primary aim in the industrial sector was to maintain the annual growth rate of 10 per cent. and to achieve a certain degree of diversification by developing some capital goods industries. Certain industries like fertilizer and cement were required to meet the expanding domestic demand and there was no question about their comparative advantage since Pakistan possesses natural raw materials for their development. Similarly, petro-chemical industries were to be based on Pakistan's abundant natural gas resources. The expansion of machine tools, electrical equipment, tractors, trucks, etc., was fairly limited and constituted only a small proportion of the total industrial investment. Pakistan's comparative advantage in these industries depended upon man-power training, technological development and capital formation. These aspects were to receive increased attention in the Third Plan period.

iii) *Resources Mobilization:* The mobilization of resources of the Third Plan required a

tremendous effort. It was hoped to save about 22 per cent of the additional income, the same proportion as was saved in the Second Plan. This would allow per capita income to increase by Rs. 63 during the Third Plan period as compared to Rs. 31 in the Second Plan, because the economic base was expanding. The basic question was to improve and strengthen institutional arrangements for saving and investment and to maintain fiscal incentives for accelerated development. This was to be the focus of the same efforts.

iv) *Export Targets:* The Plan suggested an export target of Rs. 4,800 million for 1969-70, compared to foreign exchange earning of about Rs. 3,050 million in 1964-65. This represented an increase of 57 per cent in five years against 40 per cent expected during the Second Plan period.

v) *Foreign Assistance:* The payment of foreign loans constituted about 10 per cent of our export earnings in 1964-65 and was expected to go up to 15-16 per cent of these earnings by 1970. However it was noted that whereas Rs. 2,700 million were left out of the country's own resources for financing its imports after paying the debt liability, the balance left would be over Rs. 4,000 million in 1970 despite a much higher level of debt repayment. This was because the country's exports were expected to increase from Rs. 3,050 million to about Rs. 4,800 million. In addition to the entire non-development imports, the country would devote over Rs. 7,000 million to development imports out of its own foreign exchange earnings during the Third Plan period.

vi) *Regional Development in the Third Plan:* The Plan allocated Rs. 27,000 million to East Pakistan as compared to Rs. 25,000 million to West Pakistan. The regional income was to be increased by 35 per cent in West Pakistan and 40 per cent in East Pakistan. This would constitute a decisive step towards eliminating regional disparities over the course of the next 20 years. The Plan took particular care to provide encouragement to newcomers in the industrial field. Apart from credit facilities from loan-giving agencies and commercial banks for certain specified medium and light industries, preference was to be given to newcomers with modest means. The main idea behind these measures was to make industrial progress broadbased so that as large a number of people as possible would be able to benefit from the country's economic growth.

vii) *Employment:* The Third Plan projected additional employment over the next 5 years at 5.5 million man-years. This would not only absorb all the new entrants into the labour force, estimated at 4.2 million, but for the first time also cut sharply into the legacy of unemployment from earlier periods. This estimate of employment was, in fact, conservative as it was based on a cautious projection of its most important component, agricultural employment.

The Third Five-Year Plan made a start under inauspicious circumstances: The conflict with India in September 1965, the interruption in the flow of foreign aid in mid-1965, the unfavourable weather conditions which created the worst drought in 40 years in West Pakistan, and a certain amount of power failure. Speaking on the Third Five-Year Plan, the Finance Minister in his 1963-64 Budget speech had promised:

> "The targets will be much more ambitious than those of the Second Plan, as they ought to be. There should be substantial progress toward closing the gap in income between the two Wings and in reducing our dependence on foreign aid. Industrial development, particularly of heavy industries and those oriented to exports, will be stressed."

The postponement of the Aid to Pakistan Consortium meeting announced in July 1965 and the outbreak of hostilities with India in September, 1965, necessitated a reduction in the Annual Development Programme for 1965-66 and the rephasing of development expenditure envisaged in the Plan. These events indicated the need for a fresh look at the resources picture and for a review of inter-sectoral priorities.

A thorough re-examination of the original Plan was, therefore, made with a view to evolving a new strategy of development in order to cope with the changed circumstances. The main elements in the new strategy were directed towards the establishment of priorities and changing sectoral

allocations in such a way that the desired objective of growth in the economy could be achieved with a lower level of investment. This was done by laying greater emphasis on the development of agriculture, a fuller utilisation of existing capacity, postponement or reduction in import intensive investment and emphasis in favour of quick yielding projects.

The strategy took note of the following important considerations:—

(i) In view of the momentum for mobilising additional domestic resources built up in the country to meet external aggression, it would be possible to maintain the size, basic objectives and main targets of the Plan but it would be necessary to revise the annual phasing of the Plan outlay as a result of the shortfall experienced in the first year.

(ii) It was necessary to aim at the realisation of net allocations of the Plan and to reduce the expected shortfalls in future as far as possible in order to sharpen the focus on priorities.

In the light of these considerations the sectoral priorities were carefully reviewed in the light of changed circumstances. The revised sectoral priorities and allocations of the Plan were approved by the National Economic Council in December, 1966.

Table 24.6 shows the original and revised phasing of the Third Plan by Public and Private sectors:

TABLE 24.6

Revised Phasing of the Third Plan

(Million Rupees)

	Government Financed Sector		Private Sector		Total	
Year	Original Phasing	Revised Phasing	Original Phasing	Revised Phasing	Original Phasing	Revised Phasing
1964-65	4,250	3,970	3,180	3,390	7,430	7,360
1965-66	4,700	3,420	3,700	3,700	8,400	7,120
1966-67	5,300	5,000	4,050	4,000	9,350	9,000
1967-68	6,000	6,000	4,350	4,300	11,350	10,300
1968-69	6,700	7,100	4,700	4,800	11,400	11,900
1969-70	7,300	8,480	5,200	5,200	12,500	13,680
1969-70	30,000	30,000	22,000	22,000	52,000	52,000
Annual Compound Growth rate 1964-65 to 1969-70	11.4	16.2	10.4	11.6	11.0	14.2

Although the basic premises of the Plan underwent a major change, which could have upset the prospect of its orderly implementation, it was a measure of the country's determination that the growth impulses in the economy were not disrupted while making adjustments to the changed conditions. The priorities of the Plan were recast in favour of quick-yielding sectors and projects and efforts were made to mobilize additional domestic resources for development. It was estimated that the overall growth rate of the Gross National Product was about 5.8 per cent per annum as compared to the Plan target of 6.5 per cent per annum. The estimated shortfall in the overall public sector programmes in East and West Pakistan separately, was of the order of 28 per cent—roughly in line with the shortfall in aid flows. In terms of cumulative earnings, the export target was achieved to the extent of 96 per cent.

In spite of these heavy odds, the Third Plan was implemented with moderate success as a result of a major acceleration in the production programmes in the agriculture sector. The last three years of the Third Plan were directed to achieving a decisive break-through in agriculture, with the result that West Pakistan was able to achieve self-sufficiency in foodgrains production, and there were reasonable expectations for East Pakistan to do the same over the Fourth Plan period.

There were many problems which remained to be tackled. In the social sectors, particularly education and man-power training, the progress was inadequate. The transition to more sophisticated and basic industries, which are needed ultimately for generating self-sustaining growth, was slow. Likewise, the progress towards the objective of reducing regional economic disparities had been unsatisfactory. The terms and conditions of foreign assistance became progressively harder. These problems constituted the dominant theme in the strategy for the Fourth Plan.

The performance of the Third Plan must be evaluated not only with reference to the original Plan targets but also in terms of its success or failure in meeting the new challenges, pressures and strains generated by unexpected events during the Plan period.

Evaluation of the Third Plan was undertaken in the Yahya regime and an attempt was made to underrate the achievements of the Third Plan. Yet facts could not be belied and the then Deputy Chairman of the Planning Commission, M. H. Sufi, who was a weak and colourless officer went to great pains to please his masters and play down what was achieved in the most difficult circumstances. The basic points highlighted in this Evaluation are indicated as follows:—

Planning in Pakistan has, from the beginning, been primarily investment planning, specifying investment targets, suggesting means for mobilizing resources and identifying possible sources of financing. Almost a fixed relationship was assumed between investment and production. During the Second Plan period, the role of economic policies to stimulate private investment, expand exports and increase public savings received greater attention. In the beginning of the Third Plan, the approach, manifest in overall investment planning, changed radically in favour of more detailed operational programmes and sectoral planning and a greater emphasis on growth-oriented policies. The food self-sufficiency programme with its district-wise targets of production and provision of required inputs is the outstanding example of the new approach. In large part, the new approach was evolved in response to the compulsion for protecting the production targets of the Third Plan despite the decline in investable resources.

The new approach had both its strong and weak points. Its success in terms of the immediate goals of larger production, progress towards food self-sufficiency and larger exports is unquestionable. The growth rate achieved during the Second Plan was protected and slightly improved upon. Expansion in exports continued ahead of the growth rate in GNP. Agriculture emerged as a new dynamic sector, particularly in West Pakistan, with a sharp reduction in the need for imported foodgrains and bright prospects for exports in the future.

The limited policy response which made these achievements possible and developed as a sequel to the events of 1965 was essentially a short-term palliative. It sought to concentrate attention on selected areas in order to protect the basic growth impulses in the economy.

In the long run, impact on the neglected elements of economic and social life was bound to be serious. The success of the Family Planning programme was the brightest element in the implementation of the social sector part of the Plan.

The performance of the Third Plan fell short of expectations in many spheres because the reduced resources and increased non-development requirements resulted in a financial shortfall of about 17 per cent in the planned development outlay. Government policies managed to cushion the GNP and export targets from the cut in development spending and even exceeded the agricultural targets for foodgrains. GNP increased by 5.8 per cent, value added to agriculture by 4.1 per cent and export earnings by 6.5 per cent, compared with the respective Plan targets of 6.5, 5.0 and 9.5 per cent. On the other hand, a number of other targets were subject to more severe shortfalls. A growth rate of only 7.8 per cent in value added to the manufacturing sector was realized compared with the Plan target of 10 per cent. Other shortfalls were registered in social sectors affecting the balance of development effort between the human and physical infrastructure. Price increased by about 25 per cent or by about 5% per annum.

The most significant shortfall in the Third Plan was reflected in savings and investment targets for the economy which. in turn, affected the employment opportunities and allocations for social sectors. On the whole. investment in real terms hardly showed any improvement. On the face of it. the public sector development outlay of Rs. 6.200 million (including the Indus Basin Works) in 1969-70 was 27 per cent higher than the level of Rs. 4,890 million reached in 1964-65. Allowing, however. for the abnormal increase in the price of investment goods, and a larger element of non-investment development expenditure on subsidies in later years, public investment in real prices showed no increase. There was also no increase in the rate of private investment in current prices except in the last year of the Plan. As a proportion of GNP, gross investment declined from 18.3 per cent in 1964-65 to 14.3 per cent in 1969-70.

It had become obvious from the outset that shortfalls in implementation could not be avoided. That is why in December, 1966, the National Economic Council reduced the gross public sector programme from Rs. 34,500 million to Rs. 31,000 million. The private sector programme, which was mainly of an indicative nature, was maintained at Rs. 22,000 million. The total development expenditure during the Plan period (including the Indus Basin) was estimated at Rs. 46,450 million against Rs. 55,000 million forecast in the Plan. The shortfall was thus roughly 15 per cent in the total programme, but 28 per cent in the public sector programme.

Despite concerted efforts to bridge the savings gap, a serious shortfall in the implementation of the Plan could not be avoided. This was partly because of the other pressures on resources which developed simultaneously but largely on account of the very nature of the fresh increases in expenditure. Defence expenditure increased from Rs. 1,162 million in 1964-65 to Rs. 2,760 million in 1969-70. Defence expenditure thus claimed Rs. 5,630 million more than the Plan projection as a result of the 1965 war and the subsequent need for replacing free equipment obtained under U.S. military assistance. Also towards the end of the Plan period, it became imperative to allow quite substantial increase in non-development expenditure for long-delayed pay adjustments and overdue improvements in recurring expenditure on administration and social services. The additional demands on resources exceeded the large additional tax effort of Rs. 6,500 million carried out by the nation during the Third Plan period.

A much more important factor from the point of view of domestic resource mobilization effort was, however, the basic change in the composition of growth itself. While the overall growth rate in the Third Plan was slightly higher than that in the Second Plan period, there was a radical change in the elements of growth. During the Third Plan, agricultural growth rate increased from 3.5 per cent to 4.1 per cent, while industrial growth rate declined from 10 per cent per annum to 7.8 per cent. Again, within the agriculture sector. a major source of growth was an increase in the production of subsistence commodities like wheat and rice. The institutional and policy framework which has been evolved earlier to mobilize resources from the urban-industrial segment of the economy could not be immediately remoulded to shift the focus to the new growth points in the economy. In any case, mobilization of resources and generation of savings present a more difficult problem when the increase in production is taking place in and near the subsistence sector, where immediate consumption pressures are quite high.

Another important factor affecting savings, particularly in the public sector, was the decline in the inflow of foreign assistance. The expectation of a revival in the level of aid commitments. after the initial pause in 1965-66, did not materialize. Gross inflow of aid remained unchanged at slightly above Rs. 3,000 million per annum while debt servicing jumped from Rs. 346 million in 1964-65 to Rs. 798 million by 1969-70. Net inflow thus registered a corresponding decline. A significant portion of the tax receipts of the Government depends directly or indirectly on the level of imports. The total imports in the country were consistently below the level of imports in 1964-65. affecting customs duties and sales taxes directly and income-taxes and excise duties indirectly through the level of economic activity.

Despite these unavoidable dents in resources for development, several significant measures were taken to strengthen the institutional framework and to mobilize both public and private savings. Public savings responded immediately as the tax base was widened and the Government was able to maintain its share in total development effort. During the final year of the Plan, 60 per cent of financing of the public sector programme was from domestic resources against only 35 per cent in 1964-65. In the private sector. the improvements in the capital market helped

to broaden its base. The immediate impact of these and other improvements was very large, but was intended to have a salutary effect on efforts to raise resources for the Fourth Plan.

The average saving rate came down from 11.7 per cent to 10.7 per cent between the terminal years of the Second and the Third Plans. The decline of 4.0 per cent in the investment ratio from 18.3 to 14.3 per cent is thus explained by a 1.0 per cent fall in the saving rate and the balance by a shortfall in the net flow of foreign assistance. Pakistan had to follow simultaneously policies to close the foreign exchange gap faster than visualized earlier. Imports had to bear the brunt of the pressure, as the growth in exports, through sizeable, could only moderate the impact of the shock. The Plan's export target of 9.5 per cent per annum was based on an expected rise of 6.5 percent per annum in GNP. As the realised growth rate was only 5.8 percent per annum, with a larger increase in population than projected earlier, the per capita margin for exports, after allowing for existing levels of consumption. was about 25 per cent less. The exportable surplus was further affected by a major shift from production for exports to import substitution in foodgrains.

Despite these adverse factors, the policy emphasis was maintained to maximize exports and incentives were strengthened with considerable success. During the Plan period, the foreign exchange receipts went up by 36 per cent. But this success on the export front inevitably squeezed domestic consumption.

The export effort at this pace could not be maintained without a much larger increase in domestic production. The domestic demand began competing with export effort by the end of the Plan period. In the final year, the wage increases reduced the exportable surpluses. At the same time, relative prices of agricultural exports, slackened somewhat. As a result, the export effort slackened and total earnings showed only a marginal increase in 1969-70, thus reducing the five year average increase to about 6.5 percent per annum compared to the Plan's original target of 9.5 per cent per annum.

Imports (excluding invisibles) increased by only 1 percent per annum, as the country could not afford larger imports with a considerable part of the increase in export earnings pre-empted by larger food and defence imports and a rising debt servicing burden. Even within the available resources, the growing requirements of fertilizers and other agricultural inputs pre-empted larger proportion, leaving little scope for increasing the import of industrial raw materials and capital goods.

The regulation of imports was increasingly managed by adjustments in the prices of imports. Duties were enhanced on the import of capital goods and machinery and a surcharge was levied on all other duties. Raw materials were generally shifted to the cash-cum-bonus category, allowing their import on an effective exchange rate of Rs. 9 per dollar, excluding the effect of the duties. By the end of the Plan period, very few imports were regulated directly by licensing.

The measures described above protected the balance of payments in an accounting sense, meaning thereby that undue loss of foreign exchange reserve was avoided. The position, however, remained weak as import demand continued to exceed available foreign exchange resources, dictating continuation of exchange restriction. In a real sense also, the balance of payments position was strengthened as a much lower proportion of total imports was being financed by aid. Major import substitution in foodgrains had been accomplished in West Pakistan with bright prospects of its extension to East Pakistan and a more significant import substitution was in sight for fertilizers. However, the immediate impact of a very slow growth in imports was reflected in the slower utilization of industrial capacity. It was also an important factor in depressing the level of private investment in the economy.

Although there was a shortfall in real investment of around 30 per cent from the Third Plan target and the ratio of investment to GNP slumped from 18.3 percent at the close of the Second Plan to an average of 14.9 percent for the Third Plan, the rapid increase in the use of key agricultural inputs compensated somewhat for the decline in investment, permitting GNP to grow at an annual compound rate of 5.8 percent against the target of 6.5 percent and holding the shortfall in the target for incremental GNP to 13 percent compared with a 30 percent shortfall for investment. Table 24.6 indicates the rate of progress in the Third Plan period.

TABLE 24.6

Total and Per Capita GNP (1964-65 *Prices*)

	(Million Rupees)		Annual Compound Growth Rate	
	1964-65	1969-70 (Prov.)	Achievement	Target
1. Agriculture	21,919	26,759	4.1	5.0
2. Manufacturing	5,042	7,332	7.8	10.0
(a) Large Scale	(3,381)	(5,442)	10.0	13.0
(b) Small Scale	(1,661)	(1,890)	2.6	2.6
3. Constitution	2,057	3,022	8.0	
				7.1
4. Others	16,395	23,133	7.1	
5. G.N.P.	25,413	60,246	5.8	6.5
6. G.N.P. per capita (Rs.)	395	455	2.9	3.5

Source: C.S.O. Estimates converted to 1964-65 prices.

Thus the Third Plan was quite a success considering the various inauspicious circumstances which heralded its launching, the disturbances during the last six months of President Ayub's regime, and the damage wrought by Yahya Khan during the last 15 months of the Third Plan period.

THE FOURTH PLAN (1970—75)

The Fourth Plan was the last in the series of plans formulated when East Pakistan was an integral part of Pakistan. Although it lost its validity with the separation of East Pakistan within the first 18 months of the Plan period it is worth placing on record. It was also finalised in a period characterised by Yahya Khan's Mumbo-Jumbo and its launching synchronised with Yahya's highly successful attempt to disembowel the top echelons of the civil administration.

The principal objectives of the Plan were spelt out in the documents entitled Socio-Economic Objectives of the Fourth Five Year Plan which was approved by the National Economic Council in November 1968. These were:—

a) to maintain the tempo of development in the country through a determined effort to secure the maximum and most efficient utilization of our material and human resources;
b) to reduce inter-regional and intra-regional disparity in per capita income;
c) to make the economy increasing self-reliant in most essential fields;
d) to remove towards a viable synthesis between the claims of economic growth and social justice through the pursuit of pragmatic policies; and
e) to direct the forces of economic and social change towards the establishment of a just society.

It was pointed out at the time of presentation of the Socio-Economic Objectives that it was not possible to achieve all these objectives simultaneously in view of our limited resources.

"There will be times when the nation will have to make a conscious choice between various objectives. For instance, it is possible to accelerate growth rate well beyond the 5.5 percent per annum already achieved but it may be difficult to do so while replacing foreign assistance within a short period, carrying an inescapable defence burden, reducing regional disparity and distributing incomes more equitably. The nation may well have to accept a less ambitious growth target for the Fourth Plan in order to combine it with other social and economic objectives which have become increasingly important and which cannot all be achieved simultaneously alongwith the relentless pursuit of economic growth."

It is really amazing that the Planning Commission should have stated the objectives that they did to please their masters, and to protect their interests also pointed out the inherent contradictions in these objectives. If this were not enough the Planning Commission proceeded to lay down the nucleus of a programme to secure "social justice" knowing full well that neither would it have the desired results nor would it promote economic growth and production to the extent necessary.

The policy suggested by the Planning Commission can be divided into the following groups:—

A. Apart from the fixation of minimum wages in order to contain inequalities in future within socially acceptable limits, it is imperative that a comprehensive income and price policy be formulated within the Fourth Plan period. The following elements would be relevant in devising such a policy:

(i) The collective bargaining process should be allowed to improve the wages of workers not covered by minimum wage legislation. Alternatively, it may be necessary to extend the minimum wage to other sections of the society. For the Government employees, a Pay Commission has already been set up.

(ii) The present enormous differentials in minimum and maximum incomes should be reduced by appropriate policy measures. It would be necessary to review all subsidies which are conferring windfall profits or unearned increments on various sectors of the society or various income groups. In particular the hidden subsidies in the existing licensing system and the tax concessions and allowances would have to be critically examined with a view to their elimination.

(iii) Greater equality of opportunity should be provided by the rapid spread of educational facilities and through competitive entry to jobs.

(iv) Fiscal policy would have to be used to tax the rich and provide relief to the poor. This means that greater reliance will have to be placed in future on direct taxation. A Taxation Commission with comprehensive terms of reference is being set up to examine these issues and recommend concrete policy changes.

(v) A Consumption Plan has been prepared which projects the annual requirements of essential commodities and gears the programmes of production and import to meeting these requirements. This must be combined with a definite price policy to protect the consumer from the rising cost of living and to establish a ceiling beyond which annual increases in prices should not be permitted. The selected targets for consumption are indicated in Table 24.7.

TABLE 24.7

Selected Consumption Targets for the Fourth Plan

(Lbs. per capita)

	Item	1969-70	1974-75	Percentage Increase
1.	Wheat	123.48	133.57	8.2
2.	Rice	207.56	235.17	13.3
3.	Pulses (excluding grams)	7.31	8.13	11.2
4.	Fats and oil	9.85	11.83	20.1
5.	Milk	114.79	133.76	16.5
6.	Meat	6.89	9.15	32.8
7.	Fish	15.49	18.17	17.3
8.	Vegetables (including potatoes)	79.40	92.30	16.2
9.	Refined Sugar	10.26	12.60	22.8
10.	Tea	0.54	0.65	20.4
11.	Cotton Cloth (Yds.)	11.93	14.73	23.5

B. The major mechanism by which the Government can affect social welfare at present is by providing social services, either free or at a subsidized rate. The Fourth Plan provides for a major increase in the spending on social services, i.e., education, health, family planning, housing. environmental sanitation. The Plan proposes an allocation of 27 percent of the total development resources to these social services as compared with 20 percent in the past. It also proposes a major increase in recurring expenditure on these services. There will be an acceleration of about 138 percent in the level of spending on social sectors during the Fourth Plan period over the Third Plan. This is as much as the country can afford as even this level will involve major constraints on the productive sectors of the economy.

C. A stage of development has now been reached when certain basic reforms should be introduced to contain the concentration of industrial incomes and wealth. Certain factors underline the urgency of timely action:

(i) The first generation of industrialists. who earned their wealth at least partly through enterpreneurial ability, are now handing over to the second generation for whom it is largely an unearned windfall.

(ii) The first phase of industrialisation is nearly over and the second one is starting now. The second phase will be concentrated more on sophisticated industries where the question of technical know-how and efficient management is more important than that of a pioneering effort. The system of individual control has to give way to institutional and professional management.

(iii) Concentration of industrial power in a few family groups is leading to pre-empting new sanctions and bank credit by big industrial families. resulting in a denial of fair opportunities to the late-comers. Distributive justice apart. economic growth itself is likely to suffer through lack of adequate competition.

(iv) A determined effort has to be made to spread industrialization to East Pakistan and to the less developed provinces of West Pakistan. Concentrations of industrial wealth in a few hands and in a few centres are incompatible with this effort.

(v) The problem is still manageable. The industrial sector is only 12 percent of the Gross National Product at present. It may grow to over 25 percent in another decade. It is still possible to tackle this problem effectively as in our economic system, big industrial families are largely dependent on Government patronage. making their high profits on the strength of Government licences, sanction and credit.

The Government is already committed to a policy of broadening the ownership of industry. Several steps have already been taken to encourage public share floatations and broadbased ownership of industrial undertakings. An anti-monopoly legislation was promulgated in the final year of the Third Plan. However. a fundamental reform is still to be carried out. The basic idea of a long-term reform should be to let the established industrialists play their legitimate role in managing new sophisticated ventures, in introducing new technology, in undertaking new research and in making their profits through free competition. while keeping the door open for new entrepreneurs. The profits of privilege should be replaced by profits of creative enterprise.

A number of specific policies can be considered in devising a comprehensive framework to deal with the problem of concentration of industrial incomes and wealth:

(i) Policy regarding regulation of credit institutions including commercial banks should aim at ensuring that potential borrowers are not in a position to decide the allocation of loanable funds. The ultimate access of the big industrial family groups to the banking system should be curtailed. If the present attempts to increase the share of small borrowers do not prove successful, an upper ceiling may have to be placed on the advances that any one particular industrial group can obtain from the banking system.

(ii) Fiscal policy should be used effectively to limit concentration of industrial income and wealth in a few hands. At present, the Government is sacrificing substantial revenue on account of the concessions it has given to industry for investment, production and export. The Government is realizing only 2 percent of GNP in direct taxes which compares with an average of 6 percent for the developing countries and 17 percent for the developed countries. This shows that the upper income groups are bearing

a very low tax burden in Pakistan by international standards. This must undergo a fundamental change. As mentioned already a Taxation Commission is being set up to recommend concrete policies in this sphere.

(iii) Newcomers should be encouraged to undertake industrial ventures and be given all the necessary facilities such as the grant of fiscal concessions, reservation of simpler consumer goods industries, greater encouragement by PICIC and IDBP to the new industrialists and larger accommodation for them in the credit and import policies.

D. Recently the question of nationalisation of industries has received increasing attention. This has probably been prompted by the widespread resentment with the concentration of industrial incomes and wealth and with the current abuses of the capitalistic system. The question of nationalisation cannot be divorced from the political framework that the country ultimately chooses for itself. It is not purely an economic question nor can it be judged by economic criteria alone. In fact, purely economic considerations would make one pause before a wholesale nationalisation of industries is attempted. In the last 20 years, mostly consumer goods industries have been developed in the country. These industries are not very large in size, and, if past experience is any guide, they may be difficult to operate efficiently in the public sector. There will be little national gain if the profitability of private industries is replaced by the inefficiency of public management. It will be a much better policy to tax away a major part of the profits of these industries and to utilize them for public services. But the ownership of industries in the new political framework may not be judged entirely on grounds of efficiency and profitability so that the question of nationalisation of existing industries must be left as an open issue at this stage.

A more pertinent issue is the future pattern of industrialization in the country. As we enter a more sophisticated stage of industrial development, we are likely to set up fairly big industries with sizeable capital and sophisticated technology and with a major impact on the rest of the economy. The installation and management of some of these basic industries cannot be left to the private sector. A new industrial policy must be devised which spells out clearly which industries are reserved for the public sector, which can be developed both by public and private sectors either in association or in competition, and which industries in the private sector can develop exclusively without the threat of public intervention. The present industrial policy offers only a negative list of industries, prohibiting a few industries, like ordnance factories, for the private sector while leaving the decision regarding the majority of industries to be taken on the merits of each case. The time has come to replace this negative list of industries with a positive list which defines the three categories of industries for operation by the public sector,public/private sector and private sector. Such a list will remove doubts about the legitimate role that the private sector can play in the future industrialisation of the country by settling the question of public and private ownership of industries.

E. The credit policy of the commercial banks has been dominated by certain well-known industrial houses thus accentuating the problem of concentration of industrial incomes and wealth. The commercial banks have done very little to encourage small investors or various professional groups. Statistical evidence convincingly demonstrates that advances are heavily concentrated in a small number of accounts and few cities. A better distribution of credit to various income groups and various geographical regions demands greater intervention of the public sector to regulate credit policy in line with national priorities.

F. In order to tackle the fundamental issues in the economic and social spheres, some of which are discussed above, the Government must evolve an integrated programme aimed at providing social justice, eliminating the abuses of the present economic system and mobilising the resources required for welfare and development. Such a programme must be defined not only to restore the momentum of the economy but to eliminate the abuses which led to a near revolution in the country and to establish a sound basis of future relations between the Government and the business community on the one hand and among the employer, labour and the consumer on the other.

This programme should define new rules of the game in the private sector which, while reserving a viable role for private enterprise in a mixed system, establishes the ascendancy of

the Government in the economic sphere, decreases the concentration of private wealth and economic power, encourages fair competition with the private sector, ensures greater opportunity for new comers, provides equitable treatment to workers and consumers alike and seeks from the business community resources for social purposes commensurate with their ability to pay and the large benefits received by them in the past. The private sector must recognize and accept that, in the changed circumstances, the Government has to assume a larger role in economic activity, particularly in the social sectors. The extent to which the Government will have to assume this role depends largely on how far the private sector discharges its social responsibilities.

The foregoing were some of the major elements deployed in planning the strategy of the Fourth Plan.

SPECIFIC TARGETS

The following specific targets were proposed for the Fourth Plan:—

(i) to attain an annual growth rate of at least 6.5 per cent in the Gross National Product which would permit the average per capita income to increase from Rs. 567 in 1969-70 to at least Rs. 675 in 1974-75;

(ii) to reduce the disparity in per capita income between various regions at the fastest possible rate;

(iii) to increase per capita consumption of foodgrains from 15.5 to 16.8 ounces per day by increasing rice production by 5.7 million tons, wheat production by 2.6 million tons and total foodgrain production by 8.5 million tons;

(iv) to ensure major increases in other items of essential consumption through a specific consumption plan: for instance, an increase in per capita consumption of 24% in cotton textiles, 23% in sugar and 20% in edible oils;

(v) to reduce the extent of unemployment and under-employment in the country by providing 7.5 million new job opportunities compared to 6.5 million new entrants to the labour force;

(vi) to move towards a more equitable distribution of income and wealth by limiting the concentration of industrial wealth, by increased taxation of upper income groups, by fixing of minimum wages and salaries, by narrowing down the present differentials in the salary structure, by greater emphasis on social security schemes and through the provision of more equal opportunities in the economic and social fields;

(vii) to evolve an income and price policy through which the increase per capita income is protected from price erosion;

(viii) to increase exports at least at annual rate of 8.5 per cent;

(ix) to improve Pakistan's domestic contribution towards financing of total development expenditure by saving and re-investing one-fifth of the additional income generated during the Plan period;

(x) to reduce the country's dependence on foreign assistance: net foreign assistance is expected to finance only 21% of the total development expenditure for the Plan period as a whole and 16% in 1974-75;

(xi) to move towards greater self-reliance by developing capital goods and defence-oriented industries and by securing major increases in the production of industrial machinery, transport equipment and intermediate products; additional production of 660 thousand tons of steel, 1.2 million nutrient tons of fertilizer, four million tons of cement, 280,000 million cubic feet of natural gas and Rs. 1,100 million worth of transport equipment and industrial machinery;

(xii) to increase the generation capacity of power by 1,740 MW. to provide irrigation water to over 5 million additional acres of new area, to extend electrification to at least 1,150 additional villages;

(xiii) to undertake a major flood control programme in East Pakistan outside the Fourth Plan;

(xiv) to make sizeable investment in improving communication facilities between the two

wings of Pakistan: to link the two wings of the country by a space satellite system: and to increase the number of telephones in the country by 190.000:

(xv) to increase the TV coverage in the country to 90% of the population and to introduce educational TV, including programmes for the farmers:

(xvi) to mobilise the maximum possible financial. human and administrative effort for a decisive change in the education system: by increasing the outlay on education to 2½ times the level of the Third Plan and increasing enrolment in primary schools by 5 million, in secondary schools by 1 million and in institutes for technical education by 280 per cent; to move towards universal enrolment up to Class V by 1980 and to improve the percentage of literacy in the country from 18% in 1969-70 to 28% in 1974-75 and to at least 42% by the end of the decade:

(xvii) to protect the entire population from malaria and small-pox and bring about a major improvement in curative health facilities by providing 25,000 additional hospital beds and the matching requirements of equipment and medical personnel:

(xviii) to intensify and expand the programme of family planning so as to prevent 9.6 million births during the Fourth Plan period and to reduce the birth rate from 45 per thousand in 1969-70 to 40 per thousand in 1974-75:

(xix) to construct about half a million housing units for low income groups while restricting the construction of luxury housing; and

(xx) to launch an Urban Works Programme to improve the environmental conditions in big cities and to cater to the community needs of the neglected areas.

The overall growth target of 6.5 per cent for the Fourth Plan was supposedly selected on the basis of past experience. future requirements. growth potential of various sectors and regions and the feasible level of investment to realize this growth potential. A sustained growth rate of 5.5 per cent had been achieved during the 1960's. The Perspective Plan (1965—85) would have required a growth rate of 7.2 per cent per annum to double per capita income over a period of 20 years. Thus, from the point of view of requirements. a growth rate higher than 6.5 per cent should have been selected for a major improvement in living standards. especially as the population was increasing at around 3 per cent per annum and would eat away a substantial part of future growth. It would have been possible to manage a higher growth rate than was proposed in the Fourth Plan if resources were concentrated in fast-growing sectors and regions irrespective of considerations of regional development, if more adequate provision was not made for the needs of the social sectors and if the financial resources were not a serious constraint on economic development.

It was contemplated that West Pakistan should aim at a growth rate of 5.5 per cent while East Pakistan should be enabled to accelerate its growth rate to 7.5 per cent during the Fourth Plan period. West Pakistan had maintained a growth rate of a little over 6 per cent during the 1960's. Maintenance of this growth rate in the Fourth Plan. therefore, would not have posed many problems for West Pakistan. Firstly. the technological break-through in agriculture in the Third Plan increased West Pakistan's agricultural growth rate to nearly 6 per cent per annum. which was not likely to be repeated in the next plan period. Secondly, the urgent need to transfer resources to East Pakistan and the consequential limited acceleration in the development expenditure of West Pakistan was likely to frustrate some of its growth potential. In particular. West Pakistan would have the problem of continuing its growth rate with a substantial decline in the net transfer of resources to it from abroad. Thirdly. more financial resources had to be allocated to the neglected social sectors of education. health and housing. thereby limiting resource availability to the immediately productive sectors. Fourthly. the requirements of less developed provinces in West Pakistan had to be met on a priority basis. particularly in respect of the infrastructure facilities that these provisions require for accelerated development. In East Pakistan. a growth rate of a little over 4 per cent had been achieved during the 1960's. To accelerate this growth rate to 7.5 per cent in the Fourth Plan required a tremendous effort. The attainment of such a target would depend crucially on the growth rate that was achieved in the agriculture sector which constituted 55 per cent of the total provincial product. A growth rate of about 6 per cent had to be achieved in agriculture to realize the overall growth target.

The size of the Plan was determined at Rs. 75,000 million which was rather modest in view of the demands made on it. With the intolerable rate of inflation experienced in the first half of the seventies the size of the Plan in real terms would be much less than that of the Third Plan. The planned investment of Rs. 75,000 million was based on an availability of foreign assistance to the extent of Rs. 22,000 million; this compared rather unfavourably with a gross inflow of about Rs. 16,000 million in the Third Plan period. The financing of the Plan also required that 20% of the additional income was saved as against 10% in the Third Plan and about 20 per cent in the Second Plan periods. The regional allocations made in the Fourth Plan are indicated in Table 24.8.

TABLE 24.8

Regional Allocations in the Fourth Plan

(Rs. Million)

	Total	East Pakistan	West Pakistan
A. *Plan Allocations:*			
Public Sector	44,500	27,900	16,600
Private Sector	26,000	10,000	16,000
	70,500	37,900	32,600
B. *Outside the Plan:*			
Flood Control	1,500	1,500	---
Indus Basin	3,000	—	3.000
	4,500	1,500	3,000
C. *Total Development Programme:*			
Public Sector	49,000	29,400	19,600
Private Sector	26,000	10,000	16,000
	75,000	39,400	35,600

The relative role of the public and private sectors is indicated in Table 24.9.

TABLE 24.9

Relative Role of Public and Private Sectors

Plan Period	Public Sector		Private Sector	
	Expenditure (Rs. Million)	% of total	Expenditure (Rs. Million)	% of total
First Plan (1955--60)	6.930	65	3.660	35
Second Plan (1960--65)	17.500	56	13.700	44
Third Plan (1965--70)	25.000	54	21.500	46
Fourth Plan (1970--75)	49,000	65	26.000	35

The following features emerge from the foregoing allocations:

(i) The share of East Pakistan in total development expenditure was to rise from 36 per cent in the implemented Third Plan to 52.5 per cent in the Fourth Plan, implying an edge of Rs. 3,800 million in the Public and Private sectors taken together. In the final year of the Plan, total development expenditure in East Pakistan was to exceed 55 per cent.

(ii) The development expenditure in East Pakistan in the public sector would increase from Rs. 11,300 million in the Third Plan to Rs. 29.400 million in the Fourth Plan which is an increase of 160%. This compares with an increase of only 43% in West Pakistan. This would mean that East Pakistan would have edge of Rs. 9,800 million in the public sector over the four provinces of West Pakistan and an overall share of 60 per cent. During the Third Plan. East Pakistan implemented a development programme of Rs. 11,300 million in the public sector which was Rs. 2.400 million less than that spent in West Pakistan (including Indus Basin expenditure).

(iii) The annual acceleration in the total development expenditure in East Pakistan during the Fourth Plan would be 19.1 per cent compared to 3.7 per cent in West Pakistan.

(iv) The proposed allocations implied a substantial transfer of resources to East Pakistan during the Fourth Plan both from abroad and from West Pakistan.

In 1964-65, unemployment was estimated at 7.5 million man-years, or about 20 per cent of the total labour force. It was estimated that the Third Plan had created enough job opportunities to match the increase in labour force but not to make any impression on the backlog of unemployment. It was one of the primary objectives of the Fourth Plan to create more job opportunities than the increase in labour force so as to reduce the backlog of unemployment by at least one million. In order to implement this target, employment considerations would be given equal importance with the increase in production rather than regarded as secondary to the objective of economic growth. This new priority of the employment objective was to be reflected in the emphasis on employment-creating sectors and in the choice of labour intensive technology.

Table 24.10 indicates the employment targets of the Fourth Plan.

TABLE 24.10

Employment Target of the Fourth Plan

(Million persons)

Sector	1964-65 (estimated)	1969-70 (estimated)	1974-75 (estimated)
1. Labour force	36.7	42.3	48.8
2. Employed and underemployed	36.3	41.8	48.2
(i) Agriculture	26.8	30.1	33.6
(ii) Manufacturing	3.2	3.9	4.8
(iii) Other	6.3.	7.8	9.8
3. Wholly unemployed	0.4	0.5	0.6
4. Unemployment (million man-years)*	7.5	7.5	6.5
5. Unemployment as % of total labour force	20.4	17.7	13.3

*Including underemployed.

The implementation of the Fourth Plan had been reduced to a shambles by the time East Pakistan was lost and the People's Party government took over on December 21, 1971. East Pakistan was gone and what was left of Pakistan was in a state of disarray and completely stunned by the traumatic effects of the 1971 war. During 1971-72 the country experienced drought and,

to crown this, the Punjab and Sind suffered economic distress on account of floods in 1973. The economy of the country was also dislocated by the extensive economic and social reforms instituted by the new government; these reforms had far-reaching repercussions on savings, and investment in the private sector. They also made basic institutional changes in the value system as well as in the structural pattern of the economy. These events and the resulting uncertainties inhibited the private sector which did not play its expected role. The annual rate of growth in gross domestic product declined from 6% in 1969-70 to 3.2% in 1974-75 in terms of constant factor cost while per capita gross income remained constant.

In financial terms the total development expenditure is now estimated at Rs. 42,436 million (i.e. 117 per cent) compared to the Fourth Plan target of Rs. 36,212 million. Of this expenditure, the public sector expenditure is estimated at Rs. 21,876 million (i.e. 108 per cent) compared to the Plan target of Rs. 20,212 million while the private sector expenditure is estimated at Rs. 20,560 million (i.e. 129 per cent) compared to the Plan target of Rs. 16,000 million. These investment figures would be very considerably reduced (probably by 60 to 70%) when viewed in terms of 1969-70 prices.

The rate of domestic savings in the country has been showing a declining trend over the last few years, necessitating an increased share of foreign assistantce in financing development programme. The savings stood at about 10 per cent of GDP in 1972-73 and declined to 7.7 per cent in 1973-74 and are estimated to be just over 6 per cent in 1974-75, according to a survey on national economy published in the monthly economic report of the National Development Finance Corporation. Investment activity underwent a similar decline with the beginning of the current decade but since 1973-74, the trend has been reversed. After declining to about 13 per cent during 1972-73, the ratio of investment to GDP rose to over 15 per cent during 1973-74 and it is estimated to be 16.7 per cent during the past fiscal year. Confronted with a decline in domestic savings and the imperative need to maintain development activity, the economy has resorted to increasing amounts of overseas aid to bridge the resources gap. The share of foreign assistance in financing our development programme increased from 73 per cent in 1973-74 to 89 per cent in 1974-75 and the budget for the current fiscal year has projected 84 per cent external assistance for financing development spending.

The balance of trade position and the balance of payments position were a cause of great anxiety during the Fourth Plan period. The deficit in balance of payments is roughly 100 to 120% of the foreign exchange receipts. The increase in money supply has been unprecedented and it has been a potent factor giving rise to almost galloping inflation.

In the water resource sector, the pace of development was not generally satisfactory. However, construction of the Tarbela Dam progressed satisfactorily while the Chasma-Jhelum Link was completed as part of the Indus Basin Project. In terms of water availability, the Plan envisaged an increase of 15 MAF from a benchmark level of 84 MAF in 1969-70 to a target of 99 MAF in 1974-75. The physical achievement is expected to be about 90.3 MAF, indicating a shortfall of 8.7 MAF (i.e. 58 per cent). The physical progress on the Khanpur and Hub Dams was slow because of inadequacy of funds. As regards the installation of public tube-wells, the estimated achievement is 2,500 tube-wells against the Plan target of 5,500 tube-wells, showing a shortfall of 54.6 per cent. The execution of various anti-waterlogging and salinity measures under the SCARPs also did not progress satisfactorily.

In the power sector, the total installed capacity in 1974-75 is expected to be 2,625 MW against the Plan target of 3,150 MW, indicating a shortfall of 17 per cent. The generation of energy in 1974-75 is expected to be 11,000 million KWH compared to the Plan target of 12,200 million KWH, thereby showing a shortfall of 14 per cent. The Plan target of 2.11 million electric consumers by 1974-75 is expected to be achieved fully. According to current indications, the number of villages electrified in 1974-75 is expected to be 4,300, exceeding the Plan target of 3,500 by 23 per cent.

In the transport and communications sector, the physical achievements are expected to fall short of the Plan targets in the case of passenger carriages and other vehicles by 41 per cent, of construction of high-type roads by 33 per cent, of the total number of telephones installed by 8 per cent. of the total number of post offices established by 50 per cent, and of acquisition of ships by 19 per cent. However, the physical achievements in the case of locomotives (both diesel

and electric) and wagons are expected to exceed the Plan targets by 94 per cent and 35 per cent respectively.

The People's Works Programme envisaged multi-purpose socio-economic development of the country through provision of employment opportunities, creation of effective planning and development facilities with people's participation at local level, establishment of a rural infrastructure such as roads and bridges, irrigation canals, flood protection and water supply schemes and provision of additional monetary and manpower resources through local taxation or voluntary labour for rural development on the basis of self-help. In overall terms, the People's Works Programme has made some progress despite the tragic events of 1971 which led to a substantial squeeze on financial resources and consequent cuts in the various development programmes, including the People's Works Programme.

In large-scale manufacturing, the annual rate of growth was just about 4% as against a planned annual growth of at least 10% per annum. Comparing production in 1969-70 to that in 1974-75 the production of sugar decreased by 17.5%, vegetable ghee increased by 116%, cotton yarn increased by 33.4%, cotton cloth decreased by 7.2%, fertilisers increased by 23.1%, cement increased by 26.9%. The rate of industrial progress was largely retarded on account of uncertainties, labour trouble, and the international recession.

The growth in the agricultural sector was particularly disappointing despite all the incentives and facilities provided by government to supply agricultural inputs to the farmer. The index of agricultural production as a whole remained stagnant in 1974-75 at the 1969-70 level; that of non-food crops declined by 16.8%, while that of fibres increased by 17.8%, there was practically no change in the index of production of food crops. Production of wheat in 1974-75 stood at around 7.46 million tons as against the target of 9.7 million tons; the production of cotton was 2.567 million bales as against the target of 4.317 million bales.

In fact the Fourth Plan was never implemented as such. Between 1970—72 the country was engulfed in the traumatic events leading to the separation of East Pakistan and thereafter in recovering from the shock of that separation. The occupation of large areas of Pakistan territory by India and the release of some 100,000 prisoners of war created a political crisis which needed foremost attention. The government of the day was also unwilling to accept the discipline imposed by a Five-Year Plan. There was no shortage of foreign aid and it should have been possible to adhere to a Plan discipline even if it entailed extensive revisions in the approved Plan. Instead the government opted out for annual development plans which took into account the periodic shifts in the emphasis placed on various sectors by the government, be it for political, social or economic considerations. Planning which had come to be recognised national and internationally as a highly desirable means of promoting orderly progress in Pakistan received quite a setback in the first half of the seventies. It will take some time before the institutional pattern of planned growth again takes effective and practical shape.

THE FIFTH PLAN (1975—80)

The Fifth Plan should have been made public in early 1975 and its Outline should have been made available for obtaining comments well over six months earlier, Although the Planning Commission is reported to have completed its home-work on the Fifth Plan quite some time ago it has yet to be firmed up. According to gossip the Fifth Plan will cover the period 1976—81; that will be a great pity for it will mean quite an unnecessary breach of one year in a planning process which goes back over the past 25 years. The best thing would be to incorporate the 1975-76 Annual Plan as part and parcel of the Fifth Plan.

The Annual Plan for 1975-76 released in September 1975, forecasts an improved state of the economy with 9.4 per cent growth in the Gross Domestic Product (GDP), larger investments in the public and private sectors, significant improvement in agricultural production, and better foreign trade prospects, linked with the first signs of world economic recovery from more than two years of international recession.

The plan forecasts that during 1975-76, food output will be considerably higher than the last fiscal year's. Wheat production will go up from 7.46 million tons in 1974-75 to 8.40

million tons—an improvement of 12.6 per cent. Rice output will increase by 21 per cent from 2.28 million tons to 2.70 million tons; sugarcane by 13.6 per cent from 22.0 million tons to 25.0 million tons; and cotton by 12 per cent from 3.57 million bales to 4.0 million bales.

The plan, prepared by the Planning Division, is the thickest document put together since the annual planning exercise started in Pakistan. Spread over 373 pages, it covers a review of the dismal performance of the economy in 1974-75, and deals with 1975-76 in 25 chapters.

The document says: "As the world recovers from a recession and availability of irrigation water assumes normalcy, production and exports should surge and household consumption register significant gains.

"Another favourable development is the drop in import prices of capital goods which, together with large stocks of a few major imports, will enable Pakistan to accommodate large imports of capital goods within a total import bill which is projected to be only slightly more than last year's."

The Plan, however, cautions: "Although a resurgence of economic activity is being forecast, and the terms of trade projected to improve, economic management will not be easy. In particular, the balance of payments will continue under severe pressure and domestic resources for development will remain relatively poor. The continued pressure on balance of payments and budgetary resources conceals the basic improvement during 1975-76 to the extent that a significant part of the problem arises from the repayment of short-term wheat credit contracted during the preceding year.

"In the agricultural sector, the growth forecast is based upon crop production targets similar to those projected in the annual plan of 1974-75. Once again, the attainment of the targets will depend mostly on normal canal water flows supplemented by supplies from Tarbela. Restoration of normal river flows should provide a real increase of 3 per cent in total agricultural incomes; the impact of Tarbela water is predicted to be in the range of 1.5 to 2 per cent during 1975-76.

These two factors will account for roughly half the growth in agricultural value-added projected for 1975-76. Other factors, including recent and forthcoming investment and long-term trends in better farming practices, are expected to contribute another 5 to 5.5 per cent to agricultural growth. This contribution represents an increase over a two-year period because it encompasses the improvement anticipated in 1974-75 which were frustrated by sub-normal water flows.

The agricultural targets are being backed up by the supply of inputs; sufficient stocks of fertilizer are available to enable an increased use from 4,25,000 nutrient tons in 1974-75 to 5,50,000 nutrient tons. Fertilizer demand will critically depend upon the availability of adequate irrigation water, including water stored at Tarbela. There is evidence already that river flows during the early kharif season have been at mean levels. Indeed, some rivers have been in flood which has caused losses in certain areas but these losses are not expected to be extensive.

Other facilities have been provided to increase the availability of inputs. Provision has been made for the import of 15,000 tractors. The pesticide distribution programme envisages an increase from 7.5 million spray acres in 1974-75 to 9.5 million acres. The credit plan for 1975-76 has earmarked Rs. 1,700 million compared with Rs. 1,000 million last year.

In the Industrial sector, the annual plan estimates that the value-added in large-scale manufacturing is projected to increase by 13.6 per cent. Substantial increases are forecast in production of cotton textiles and sugar, representing to a significant extent, recovery from levels of output in 1974-75. World recession in the demand of cotton yarn, and to a smaller extent cotton cloth, had caused a decline in output of these items in 1974-75.

Although complete recovery in the industrialised market economic is not expected for another six months to a year, demand for yarn and cloth has started rising. Export commitments for cotton yarn increased from 97 million pounds in the first half of 1974-75 to 444 million pounds in the second half of 1974-75. Export commitments of cotton cloth increased from 314 million yards to 412 million yards over the corresponding periods.

Sugar production in 1974-75 declined by 16 per cent over the previous years because of low availability of sugarcane. Normal irrigation water supplies in 1975-76 will enable an increase in sugarcane production and the recovery of sugar output to the level attained in 1973-74. In

addition, two new sugar factories will come into production during 1975-76. The output of sugar is, therefore, projected to increase by 28 per cent.

In many other major industries, output is not expected to increase significantly because the capacity being set up will not come into operation during 1975-76. However, investment has been taking place in many industries which will bear fru it in 1975-76. Also, those industries which were operating below capacity will show significant growth.

The projected increases in agricultural and industrial production will contribute to a growth of 9.4 per cent in GDP. Trade and transport margins, which are related to marketable surplus in agriculture, industrial production and imports, are forecast to increase by 12 per cent. Income in the construction sector is expected to register a growth of 10 per cent in response to investment trends. Income in other service sectors is projected to grow by nearly 5 per cent.

A sharp increase in investment activity is planned during 1975-76. Fixed investment is projected at Rs. 21,800 million, as against Rs. 17,450 million during 1974-75, implying an increase of about 25 per cent. Public sector development expenditure has been budgeted at Rs. 13,700 million. The investment outlays in the public sector are estimated at Rs. 12,700 million. In addition, the Board of Industrial Management is expected to make an investment of about Rs. 927 million which has not been reflected in the Budget. Investment to the extent of Rs. 200 million is also envisaged by the Provincial Boards of Industrial Management which too does not appear in the ADPs.

Investment in the semi-public sector organisations like KPT, KESC, PIA, gas companies, and road transport boards, is projected at Rs. 1,573 million as against Rs. 1,138 millions during 1974-75. Private investment is projected to increase by about 10 per cent to a level of Rs. 6,400 million.

The net external resources inflow during 1975-76 is likely to be slightly lower than in 1974-75. Thus the increase in investment is being met from increased domestic savings which are likely to finance almost 49 per cent of the total investment as against 37 per cent during 1974-75. Domestic savings, on the whole, are likely to increase by Rs. 3,500 million of which roughly two-thirds are likely to accrue in the public sector.

Efforts of the public sector would mainly stem from the fiscal measures taken during 1974-75 which alone are estimated to contribute about Rs. 1,500 million during 1975-76. The Government's determination to further increase public sector savings is visible in the Budget for 1975-76 which has moved strongly in this direction by providing various incentives for private savings and investment.

The gross inflow of foreign resources during 1975-76 is estimated at Rs. 13,550 million. The net external resources, however, are likely to be around Rs. 11,050 million as against Rs. 12,200 million during 1974-75. The net external resources are likely to finance around 51 per cent of gross investment, as against 63 per cent in 1974-75. As a percentage of GDP, these are likely to be 9.6 per cent during 1975-76 as against 12.1 per cent during 1974-75. Thus, though the contribution of net foreign resources in financing investment is still very substantial, it is considerably lower than what it was in 1974-75.

The contribution of domestic savings in financing investment has been projected at 10,750 million, as against Rs. 7,250 million during 1974-75, showing an increase of Rs. 3,500 million in one year. About 60 per cent of this increase is likely to accrue in the public savings which are estimated to increase by Rs. 2,590 million.

The budgetary surplus, including contribution of autonomous bodies, which was negative to the extent of Rs. 1,200 million in 1974-75, is likely to be positive to the extent of Rs. 1,350 million in 1975-76.

This improvement has occurred largely as a result of the measures taken by the Government in April, 1975; the quantum of subsidies have been virtually eliminated through the increase in the price of wheat, sugar and vegetable ghee.

Overall private savings are likely to increase from Rs. 7,990 million in 1974-75 to Rs. 8,900 million. Most of this increase will accrue in household savings which are estimated to rise by about 11 per cent.

Corporate savings of the public and semi-public sectors are likely to show an improvement of 25 per cent over the level of Rs. 420 million achieved last year. In the private sector, these

savings represent mainly the ploughing back of profits for investments. In the semi-public sector, the savings represent the self-financing efforts of organisations like KPT, KESC and BIM, which generate their own funds for investment.

The household savings represent the savings likely to be used for investment channelled either through the financial institutions or households themselves. These also include the transfer of private savings to the public sector through small savings schemes.

The savings likely to be channelled through financial institutions are likely to increase from Rs. 1,900 million in 1974-75 to Rs. 2,675 million. A major portion of this increase is likely to be through credits which are now increasing being used for investment.

The contribution of non-banking financial institutions relates to the investment by NDFC and other agencies out of their own resources.

The credit from the banking system projected to be utilised for investment is earmarked to the extent of Rs. 1,420 million for the private sector, mainly in the field of agriculture, industry and housing, and Rs. 840 million for Government-controlled industries, road transport corporations and gas companies.

The self-financing investment of household would be in the private sector. These are likely to be utilised mainly in the field of agriculture, housing, transport and communications and small-scale industries. The household saving efforts in the private sector are not likely to pose any problem as the major programmes being proposed in these sectors are expected to be financed from the additional income generated in these sectors by the households themselves, the plan document says.

The 1975-76 Annual Plan is an exceptionally well presented document. Table 24.11 indicates the growth of the gross domestic product by major economic sectors in 1974-75.

TABLE 24.11

G.D.P. by Major Economic Sectors: Sectoral Growth Rates (%) 1974-75

	Targets	Achievements
A. *Commodity Sectors*	6.7	(—) 0.4
1. Agriculture	6.0	(—) 2.0
(a) Major Crops	(8.2)	(—) (5.1)
(b) Others	(2.8)	(2.4)
2. Manufacturing	8.5	3.0
(a) Large-Scale	(10.0)	(3.0)
(b) Small-Scale	(2.9)	(3.0)
B. *Services Sectors*	7.7	5.8
3. Construction	12.0	15.0
4. Trade and Transport	10.0	1.8
5. Others	5.1	6.5
Total G.D.P. (A+B)	7.2	2.6

As a result of the G.D.P. growth of 2.6 per cent and the population increase of around 3 per cent, per capita income in real terms declined in 1974-75 as against the target of about 4 per cent increase. The achievements of the Annual Plan for 1974-75 do not argue well for the attainment of the optimistic targets mentioned in the 1975-76 Plan unless there is a radical change in some of government's policies which directly affect the investment and production process.

If the Annual Plans of the past three years are any guide to the main features of the Fifth Plan one may expect a plan size of about Rs. 110,000 millions to Rs. 130,000 millions, about 70 to 80 per cent of which will be in the public and semi-public sectors. Reliance on

foreign aid should be roughly 60% to 70% of the total developmental expenditure. The balance of payments will continue to be under severe pressure and the debt servicing liability may well assume rather serious proportions by the end of 1979-80. Balance of trade will continue to show large deficits. The extent of inflationary increases in prices will largely depend on government's policies and inflation induced by external forces should not assume the alarming proportions which it did in the first half of the seventies. Agricultural production will be stressed even further. Concerted efforts are bound to be made to increase wheat, cotton and sugar production quite substantially. In industry the heavy engineering, chemical and electrical industry should secure most of the Plan allocations. There would also be very substantial allocations for the transport and communications sector—as also for the social sector. Family planning would probably be revitalised to secure the impact achieved in the Third Plan period and to obviate a repetition of its dismal failure during the Fourth Plan period. During 1975—80, the performance of planning should be much better than that during 1970—75, although, the seventies are hardly likely to match the achievements of planned developments of the sixties. With firm and judicious policies and some luck 1975—80 should witness a growth rate of 6% per annum in real terms, yielding a per capita growth of around 3%.

The Future of Planning and Development in Pakistan

Planning and development during the fifties and sixties made great strides. The results of planning were described as "brilliant" and eminent foreign experts described Pakistan as a "model" for a developing economy. In some respects development might have been uneven and inadequate but by and large it could not have been better. Impressive gains were made in the industrial and agricultural sectors, power generation, irrigation and land reclamation, and transport and communications. Even the education and health sectors registered substantial growth although here the rate of progress could have been better. The private sector exhibited a remarkable degree of resilience and revealed a degree of managerial entrepreneurial ability which was wholly unsuspected. The civilian administration conducted itself with diligence and competence. Corruption was yet to percolate into the higher echelons of government and even at the public dealing level it was limited to a socially acceptable degree. The institutional framework for promoting economic development was well-established and was characterised by a reasonable standard of efficiency. The private sector was encouraged to play a leading role in the developmental effort. The planning organisations at the central and provincial levels were strengthened and the best available talent was made available to them. They enjoyed tremendous prestige and authority which was exercised quite objectively. Between 1950—70 the country went through two decades of development. In the process its economy altered significantly. The size of the national product grew substantially, its structure became more diversified and developed, and the practices and techniques of production were modernized. For an economy deficient in crucial natural resources, the transformation came a long way. Although the inflow of foreign assistance helped to finance mounting development outlays, the burden was also borne by a sizeable domestic savings effort, especially in relation to the low level of per capita income.

The country's GNP increased by 122 per cent, in real terms, over the 20-year period that is, at an annual rate of 4.1 per cent. The increase was less marked in the first decade over which a 28 per cent increase was recorded than in the second decade which witnessed a 73 per cent expansion. The differential in the growth rate of the two decades was highly significant for the growth of per capita output. The increase in the growth rate of GNP from 2.5 per cent in the first decade to 5.6 per cent in the next represented the difference between stagnating per capita income and significant increases in it, i.e., between a nominal increase in per capita income of Rs. 7 over the first decade and an increase of Rs. 91 over the second decade.

The growth of the economy between 1950—70 is reflected in Tables 24.12 and is based on the estimates of the Planning Commission.

TABLE 24.12 A

GNP and Per Capita Income

Period	GNP	Population	GNP Per Capita	GNP Per Capita
	(1959-60 factor cost)		(1959-60 prices)	(Current prices)
	(Rs. million)	(Million)	(Rs.)	(Rs.)
1949-50	24,466	79	311	253
1959-60	31,439	99	318	318
1969-70	54,280	132	410	567
	Compound Growth Rates			
1949-50 to 1959-60	2.5	2.3	0.2	2.3
1959-60 to 1969-70	5.6	3.0	2.6	6.0
1949-50 to 1969-70	4.1	2.6	1.4	4.1

TABLE 24.12 B

Structural Change in GNP

Sector	Value added as a percentage of GNP in 1949-50	Value added as a percentage of GNP in 1969-70	Growth rate in value added
Agriculture	60	45	2.6
Manufacturing	6	12	7.9
Construction	1	5	13.0
Others	33	38	4.7
Total ..	100	100	4.1

TABLE 24.12 C

Growth of Value-Added in Agriculture

(Compound growth rates)

Sub-Sector	First decade (1950—60)	Second decade (1960—70)	Overall (1950—70)
Major Crops	1.5	4.4	3.0
Minor Crops	—1.2	4.9	1.8
Other Agriculture	2.4	2.3	2.4
Total Agriculture	1.4	3.9	2.6

TABLE 24.12 D

Output of Principal Crops

Period	Rice	Wheat	Sugarcane	Tea	Jute	Cotton
	(Million Tons)			(Million lbs.)	(Million Bales)	
1949-50	8.2	3.9	10.0	38.9	6.0	1.3
1959-60	9.5	3.9	15.0	57.0	5.6	1.7
1969-70	13.8	7.1	29.9	70.0	7.0	3.0
1949-50 to 1959-60 (Indices)	116	100	150	147	93	130
1959-60 to 1969-70 (Indices)	145	182	199	123	125	176
1949-50 to 1969-70 (Indices)	168	182	299	180	117	231

TABLE 24.12 E

Yield of Principal Crops

(Maunds per acre)

Crops	1949-50	1959-60	1968-69
1. Rice	10.2	10.7	12.8
(a) East Pakistan	(10.3)	(10.9)	(12.6)
(b) West Pakistan	(19.4)	(9.0)	(14.2)
2. Wheat	0.1	8.7	11.6
3. Sugarcane	381.3	304.5	453.2
4. Tea	6.3	8.9	7.4
5. Jute	17.1	19.6	12.9
6. Cotton	2.1	2.3	3.3

TABLE 24.12 F

Per Capita Availability of Foodgrains

	1949-50	1959-60	1969-70
1. Domestic production (Million Tons)	13.3	14.5	22.5
2. Deductions for seed, feed and wastage (10% Million tons)	1.3	1.4	2.3
3. Net imports (Million tons)	—	1.2	0.9
4. Total availability (Million Tons)	12.0	14.3	21.1
5. Population (Million)	78.8	98.9	132.3
6. Per capita net domestic production (oz. per day) ..	14.9	13.0	15.0
7. Total per capita availability	14.9	14.2	15.7

TABLE 24.12 G

Availability of Water

	1955—60	1960—65	1965—70
1. New area brought under irrigation (million acres)	1.08	2.05	6.85
2. Old area provided with additional water for irrigation	2.57	8.55	13.65

TABLE 24.12 H

Large-Scale Manufacturing

Period	Value added 1959-60 factor cost	Share of GNP	Index of production
	(Rs. Million)	(%)	
1949-50	346	1.4	23
1959-60	1,565	5.0	100
1969-70	7,760	8.8	304

TABLE 24.12 I

Selected Industrial Production

Product	Unit	1949-50	1959-60	1969-70
Cotton Textiles:				
(a) Yarn	Million lbs.	43	403	720
(b) Cloth	Million yds.	99	606	810
Jute Textiles	(000) tons	—	256	600
Paper	(000) tons	—	39	80
Cigarette	Thousand Million	0.3	9	40
Vegetable Ghee	(000) tons	3	30	105
Sugar	(000) tons	36	144	460
Tea	Million lbs.	50	51	65
Fertilizers	(000) tons	—	51	370
Soda Ash	(000) tons	—	27	45
Caustic Soda	(000) tons	—	6	30
Cement	(000) tons	417	1,027	2,680

TABLE 24.12 J

Merchandise Imports and Exports

	1954-55	1959-60	1964-65	1969-70
Value in current prices: (Rs. Million)				
Exports	1,223	1,843	2,408	3,250
Imports	1,103	2,461	5,374	5,310

Quantum index:				
Exports	100	143	189	243
Imports	100	153	427	247

TABLE 24.12 K

Investment and Savings

	1949-50	1959-60	1964-65	1969-70
Current prices (Rs. Million):				
Gross Investment	705	2,900	8,890	10,600
Gross Savings	440	2,000	5,700	7,610
Per cent of GNP:				
Gross Investment	3.5	8.9	18.3	13.5
Gross Savings	2.2	6.1	11.7	9.7

TABLE 24.12 L

Education

	1949-50	1959-60	1964-65	1969-70
1. Primary schools	N.A.	44,484	63,735	70,040
2. Enrolment in primary schools	3,400,000	5,200,000	7,310,000	10,500,000
3. Enrolment at primary stage as % of primary group	N.A.	31	45	51
4. Enrolment in Secondary schools	700,000	980,000	1,650,000	2,710,000
5. Enrolment in Colleges & Universities	40,000	210,000	270,233	490,000
6. Admission to vocational institutions	N.A.	N.A.	3,700	7,680
7. Polytechnics	—	6	25	41
8. Annual output of diploma level technicians	—	630	1,644	3,800
9. Admission capacity of graduate engineers	N.A.	592	1,603	3,280

TABLE 24.12 M

Health and Family Planning

	1949-50	1959-60	1964-65	1969-70
1. Doctors	3,000	9,200	15,600	21,452
2. Nurses	1,000	2,000	3,600	5,400
3. Hospital beds	17,000	28,000	35,500	39,023
4. Lady Health Visitors	—	500	1,047	2,143
5. Family Planning				
I.U.D.	—	—	252,355*	836,308†
Sterilisations	—	—	5,400*	449,435†
Conventional contraceptives	—	—	36,327,567*	181,555,023†

Note: * relate to 1965-66 when the Family Planning programme commenced and † to 1968-69 which year marked the peak of the Pakistan Family Planning Programme.

TABLE 24.12 N

Transport and Communications

		Unit	1949-50	1959-60	1964-65	1969-70
i)	Railways:					
	Diesel locomotives	Nos.	14	1,123	1,082	625
	Steam locomotives	Nos.	808	4,607	5,109	1,046
	Passenger carriages and other coaching vehicles	Nos.	1,324	4,607	5,109	5,492
	Wagons	Nos.	5,169	49,494	59,141	61,616
ii)	Road and Road Transport:					
	Buses	Nos.	7,020	N.A.	10,530	14,204
	Trucks	Nos.	13,416	20,600	26,995	35,455
	High Type roads	Miles	9,000	9,508	1,363	14,950
iii)	Shipping:					
	Ships	Nos.	—	26	52	66
iv)	Communications:					
	Telephones	Nos.	37,000	73,262	129,000	202,000
	Post Offices	Nos.	5,650	10,261	11,800	14,300

TABLE 24.12 O

POWER

	1949-50	1959-60	1964-65	1969-70
Installed capacity in megawatts	150	882	1,435	2,593

All the afore-mentioned physical achievements in the economic and social sectors were secured without producing any serious inflationary pressures. Reasonably adequate levels of defence, development and consumption were maintained, and all this at the cost of what now appears a small increase in price levels. This was made possible by a sure and steady process of liberalising the economy and freeing it from the shackles of controls as far as resources so permitted. Further the private sector was provided all the assurances and facilities required for inducing business confidence. And lastly when it came to a choice between the conflicting demands of economic progress and a more equitable distribution of income and wealth, the choice made with great deliberation favoured economic progress. The first priority was growth and other issues took a back seat. The growth philosophy dominated the scene and other policies were subordinated to it. The political regimes in the fifties and the sixties, particularly in the sixties, tried to ensure that the impulses of economic growth were not diluted by political interference or by timid economic policies. The pressures from the aid-giving agencies for ensuring good results reinforced the domestic will for greater growth.

The first half of the seventies has not been a happy one from the point of view of national planning and development for a number of reasons, some of which were the ineptitude and recklessness of the Yahya regime, the traumatic effects of the 1971 War with India, the ravages of the 1973 floods, the unfortunate delay in the commissioning of the Tarbela Dam, the massive increase in oil prices and the dreaded combination of inflationary and recessionary pressures abroad. There was hardly any growth, the balance of payments deficits assumed serious dimensions; the country became heavily dependent on foreign aid even for transactions of a current nature; the rate of inflation became intolerable, the production of physical goods was almost stagnant in per capita terms; private investment and private enterprise lost heart and were reluctant to invest; the textile industry which is the major industry of the country could be termed 'sick'; labour indiscipline was sapping the vitality of the production process and there was little planning and financial discipline. The period 1972 onwards, however, witnessed the introduction of several measures and reforms aimed at creating a more egalitarian society and providing for greater equality of opportunity.

The strengthening of Pakistani nationalism should attract the foremost attention of one and all. The government in power bears the prime responsibility for doing so. We have during the past 28 years moved away from the sense of nationhood instead of moving towards it. The fact of the people speaking five separate languages does not detract from its nationhood. The fact of a group of people wanting to live together in cohesion is quite sufficient to create a nation out of them. The fissiparous tendencies that we sometimes observe in Pakistan are due to the neglect of the vital elements of spiritual and traditional values, which are in fact the major basis of Pakistan. The result of this has been that the material and parochial instincts in an average Pakistani can be aroused to an extent which inhibits the overall Pakistani view of national interest.

Children instead of being taught "با ادب با نصیب بے ادب بے نصیب" or "Be good and do good to others" are dutifully informed that ours is a materialistic society in which the test of success is either wealth or power, or preferably both. Even in the more advanced countries of the western world we have during the past few years witnessed the result of this development; their youth are more and more inclined to be not only destructive but also self-destructive and in the process do their best to disrupt and completely destroy the established order of a stable and a progressive society. It would be wrong to assume that all this is done by a small and vocal group of people. The malaise is much deeper. Silently but surely supporting this small and vocal group is a larger segment of society which gives vent to its self-imposed and accumulated feelings of frustration and revolt either by mute acquiescence in the activities of this group or sometimes by actively following its lead. Nevertheless it is indeed reassuring that in times of crisis when the security of the country has been threatened from outside its territories, every single Pakistani has risen to the occasion and their hearts have beaten in unison. This incontrovertibly demonstrates that deep down the feeling of Pakistan nationalism is firmly implanted and can be brought out and channelled into constructive pursuits. All parties should practise the policies of national reconciliation. All political activities which aim at creating national divisiveness and regional and class hatred should be severely discouraged.

The administration of Pakistan needs to be thoroughly revamped in order to maintain law and order on a firm and just basis. Financial discipline has to be imposed with severity and the planning discipline has to be reinvigorated. Corruption at the political and administrative levels should be reduced to a socially acceptable minimum, though it may well prove impossible to eradicate it. Social justice and egalitarianism should be advanced but not at the cost of intolerable inflation and economic stagnation. Economic policies have to be stable and should be conducive to restoring business confidence. The stress should once again be on accelerating savings, investment and growth. Productivity, efficiency, and export promotion should once again be made fashionable. The public sector, which would be playing an increasingly greater role. must build up the tradition of efficiency and accountability. The country must also learn to live within its means. The labour and the peasantry while getting their rights, should also undertake their corresponding obligations. And finally the package of economic and social policies should be a bold one and should provide a solid basis for economic well-being.

There is no alternative to hard work and there is also no alternative to capital accumulation through a sustained savings and investment process to lift the economy to higher levels of activity. Empty slogans corrupt popular thought, and the assurance of plenty for the masses secured by expropriating the wherewithal of the upper classes, apart from being a palpably false premise, induces an element of apathy, indolence and indiscipline which forebodes ill for the country and the national economy. "If wishes were horses beggars would ride." but in this our world very few beggars ride horses. And what of the future, for an economist finds it rather difficult to avoid the temptation of crystal gazing. Pakistan can look forward to better and more glorious times in the coming generations. This basically emotional belief has certain well-founded premises. Pakistan is a God-gifted country established by the blood and sweat of millions of good people; then again Pakistan's political forces have shown the amazing talent of throwing up a leadership appropriate to the times. The leadership in Pakistan has rather wisely harnessed the then prevailing forces of history in the service of the nation and they have by and large avoided the temptation of creating history. Pakistanis are quite capable of being a hard-working and disciplined people and they generally take a constructive view of life. The prevailing geo-political factors on the international horizon bode well for Pakistan which occupies a strategic position vis-a-vis the Middle East oil producing areas and these are the lifeline for the prosperity of the industrialised West. Thus, after all, one can never tell, but the beggars of today in Pakistan may well be riding horses tomorrow.